

CERTIFICATE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1912.

No. 951.

BAUER & CIE AND THE BAUER CHEMICAL COMPANY

JAMES O'CONNELL

ON A CERTIFICATE FROM THE COURT OF APPEALS OF THE DISTRICT
OF COLUMBIA.

FILED JANUARY 26, 1913.

(23,526)

(23,526)

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1912.

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BAUER & CIE AND THE BAUER CHEMICAL COMPANY

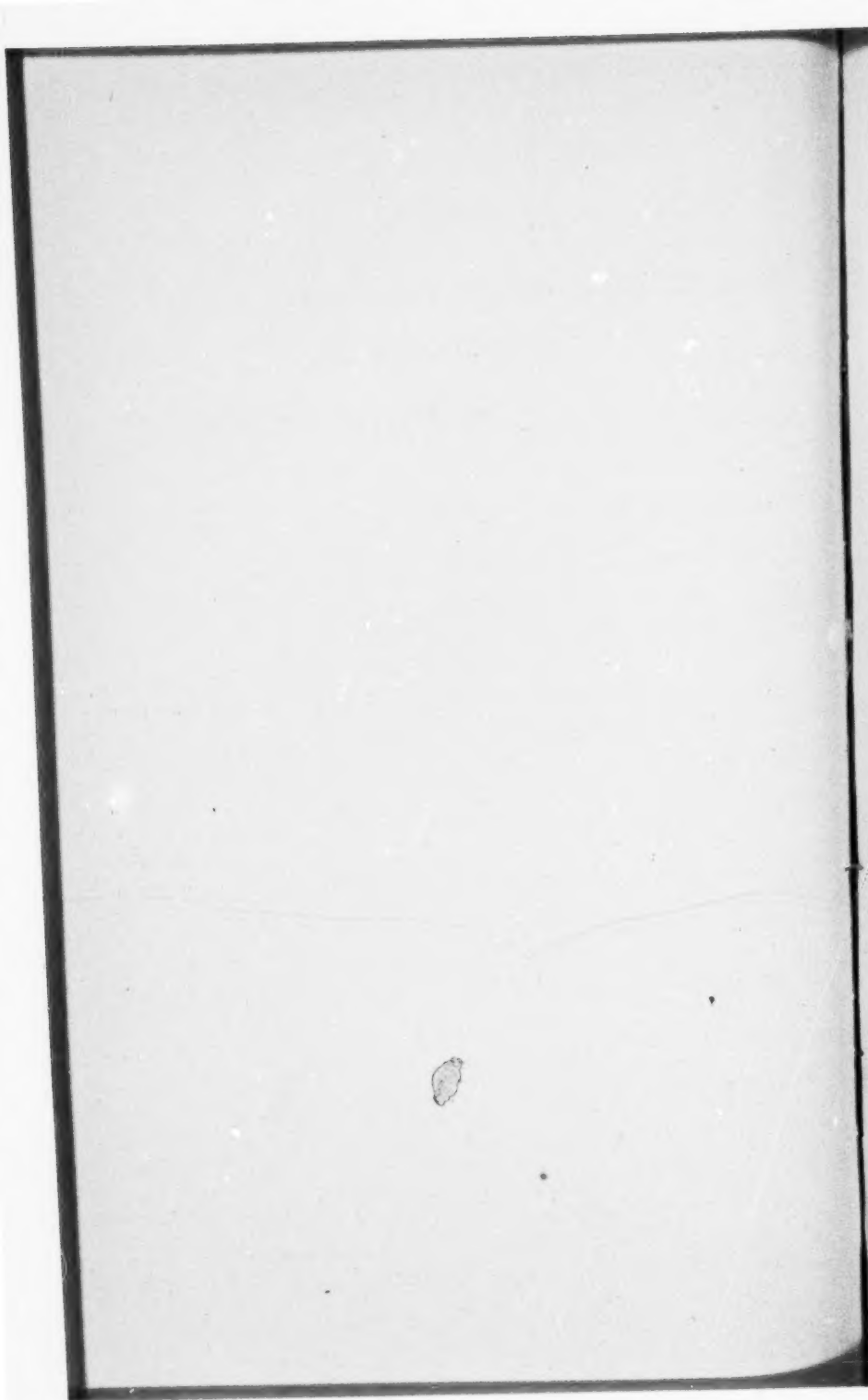
vs.

JAMES O'DONNELL.

ON A CERTIFICATE FROM THE COURT OF APPEALS OF THE DISTRICT
OF COLUMBIA.

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Certificate.

Court of Appeals of the District of Columbia, October Term, 1912.

No. 2444.

BAUER & CIE and THE BAUER CHEMICAL COMPANY, Appellants,
vs.
JAMES O'DONNELL, Appellee.

The Court of Appeals of the District of Columbia certifies that the record in the above entitled cause, now pending in such court upon appeal from the Supreme Court of the District of Columbia, discloses the following: Bauer & Cie, of Berlin, Germany, copartners, being the assignees of letters patent of the United States, dated April 5, 1898, No. 601,995, covering a certain water soluble albumenoid known as "Sanatogen" and the process of manufacturing the same, about July, 1907, entered into an agreement with F. W. Hehmeyer, doing business in the City of New York under the trade name of The Bauer Chemical Company, whereby Hehmeyer became and has since been the sole agent and licensee for the sale of said product in the United States, the agreement contemplating that Hehmeyer should have power to fix the price of sale to wholesalers or distributors and to retailers, and to the public. The agreement further contemplated that said product should be furnished Hehmeyer at manufacturing cost, the net profits obtained by him to be shared equally by the parties to the agreement. Since April, 1910, this product has been uniformly sold and supplied to the trade and to the public by the appellants and their licensees in sealed packages bearing the name "Sanatogen," the words "Patented in U. S. A., No. 601,995," and the following:

"Notice to the Retailer.

This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar (\$1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.

A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.

THE BAUER CHEMICAL CO."

The appellee is the proprietor of a retail drug-store at 904 F Street, N. W., in this City. He purchased of the Bauer Chemical Company for his retail trade original packages of said Sanatogen bearing the aforesaid notice. These packages he sold

at retail at less than one dollar and, persisting in such sales, appellants in March, 1911, severed relations with him. Thereupon appellee, without the license or consent of the appellants, purchased from jobbers within the District of Columbia, said jobbers having purchased from appellants, original packages of said product bearing the aforesaid notice, sold said packages at retail at less than the price fixed in said notice, and avers that he will continue such sales.

The Court of Appeals of the District of Columbia further certifies that the following question of law arises upon the record, that its decision is necessary to the proper disposition of the cause, and, to the end that a correct result may be reached, desires the instruction of the Supreme Court of the United States upon that question, to wit:

Did the acts of the appellee, in retailing at less than the price fixed in said notice, original packages of "Sanatogen" purchased of jobbers as aforesaid, constitute infringement of appellants' patent?

SETH SHEPARD,
CHARLES H. ROBB,
JOSIAH A. VAN ORSDEL,

*Chief Justice and Associate Justices of the Court of
Appeals of the District of Columbia.*

4 I, Henry W. Hodges, Clerk of the Court of Appeals of the District of Columbia, do hereby certify that the foregoing typewritten pages numbered from 1 to 3, inclusive, are a certification from this Court to the Supreme Court of the United States of the question enumerated therein in the case of Bauer & Cie and The Bauer Chemical Company vs. James O'Donnell, No. 2444, for its determination, pursuant to Section 251 of the Judicial Act approved March 3, 1911.

In testimony whereof, I hereunto subscribe my name and affix the seal of said Court of Appeals, at the City of Washington, this 21st day of January, A. D. 1913.

[Seal Court of Appeals, District of Columbia.]

HENRY W. HODGES,
*Clerk of the Court of Appeals of the
District of Columbia.*

Endorsed on cover: File No. 23,526. District of Columbia Court of Appeals. Term No. 951. Bauer & Cie and The Bauer Chemical Company vs. James O'Donnell. (Certificate.) Filed January 28th, 1913. File No. 23,526.

U.S. Supreme Court, D.C.

FILED

U.S. DISTRICT COURT

U.S. DISTRICT COURT

MOTION TO ADVANCE HEARING

United States District Court

U.S. DISTRICT COURT

BAUER & CO. and THE NATIONAL INDUSTRIAL ORGANIZATION

U.S. DISTRICT COURT

U.S. DISTRICT COURT

United States Supreme Court.

BAUER & CIE and THE BAUER
CHEMICAL COMPANY,
Appellants,

vs.

JAMES O'DONNELL,
Appellee.

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Motion to Advance Hearing.

TO THE

HONORABLE THE JUSTICES OF THE SUPREME
COURT OF THE UNITED STATES:

Come now the Appellants, BAUER & CIE and THE
BAUER CHEMICAL COMPANY, by their counsel, ED-
WIN J. PRINDLE, and upon his attached affidavit
move the court to advance the hearing of the
above-entitled cause for the reasons set forth in
the said affidavit and that, in the ordinary course,
the cause cannot be heard for trial for two years,
and as the patent upon which the suit is based will
expire on April 5th, 1915, appellants will lose a
large part of their valuable monopoly unless the
hearing on the cause is advanced.

3

EDWIN J. PRINDLE,
Counsel for Appellants.

- 4 Due and timely service of the foregoing motion, with copies of the papers, acknowledged this 27th day of February, 1913.

BAKER, SHEEHY & HOGAN,
Solicitors for Appellee.

UNITED STATES SUPREME COURT.

5 BAUER & CIE and THE BAUER
CHEMICAL COMPANY,
Appellants,

vs.

JAMES O'DONNELL,
Appellee.

Affidavit.

STATE OF NEW YORK,)
County of New York. } ss.:

- 6 EDWIN J. PRINDLE, being duly sworn, deposes and states that he is of counsel for Appellants in the above entitled cause; that he is informed by the Clerk of the Court that the said cause will not be heard for trial in the ordinary course under two years; that the said suit is based upon a patent which expires April 5th, 1915; that the said cause would therefore not be decided until the said patent had expired; that Appellants wish to establish a precedent in the present case which would be the

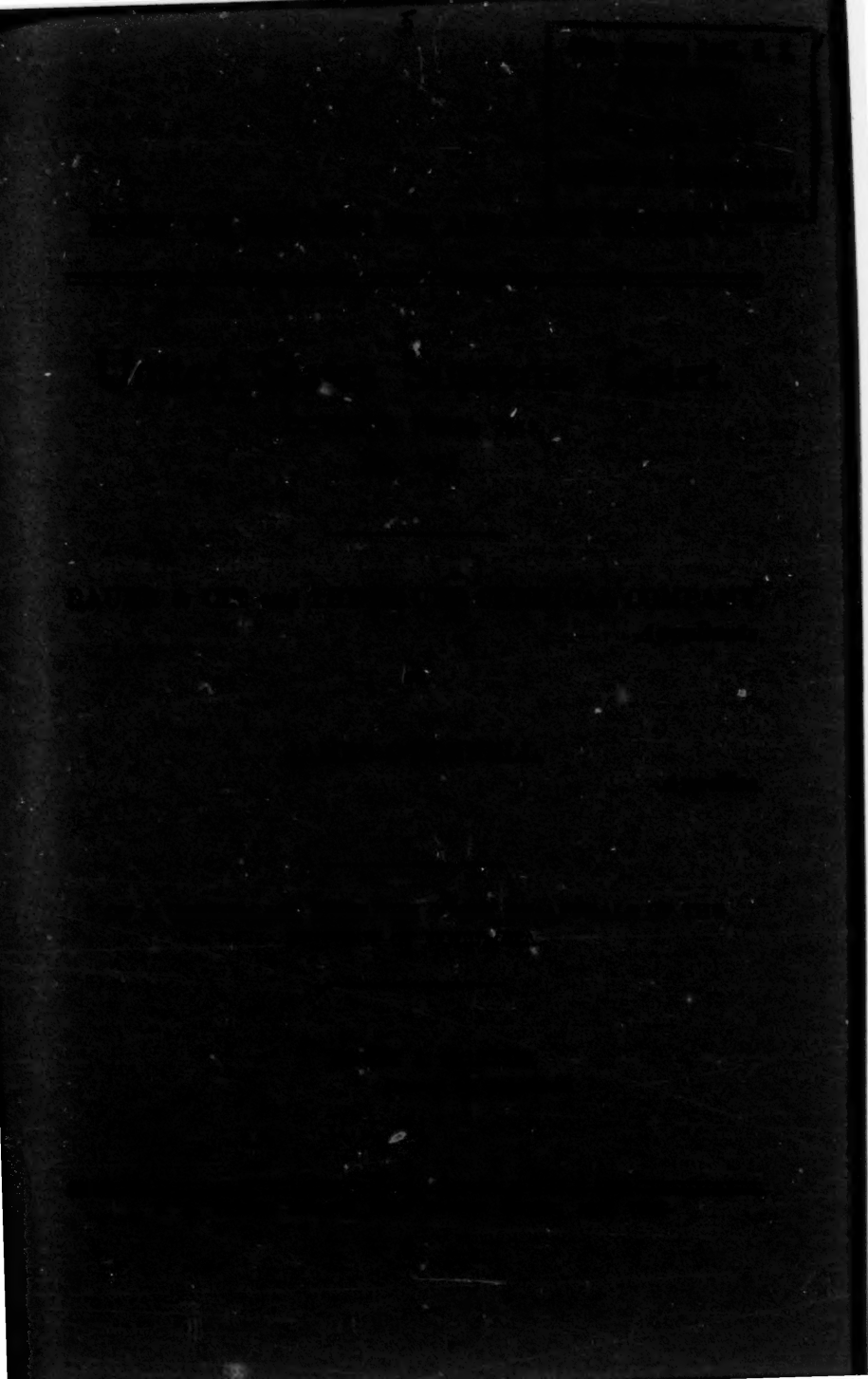
basis for other suits under the same patent, and 7
 that therefore, unless the said cause is advanced,
 Appellants will practically obtain no benefit from
 their patent, so far as the question involved in
 this suit is concerned, viz:—price regulation; that
 therefore unless the hearing in the present suit
 be advanced there would be practically a denial of
 justice; that there are a number of other suits pend-
 ing in the lower courts and one suit between the
 Gillette Safety Razor Co. and the same defendant
 pending in the Court of Appeals of the District
 of Columbia, all of which will be affected by the
 decision in the present cause; that, for these rea-
 sons, it is essential to the ends of justice that the 8
 above entitled cause be advanced.

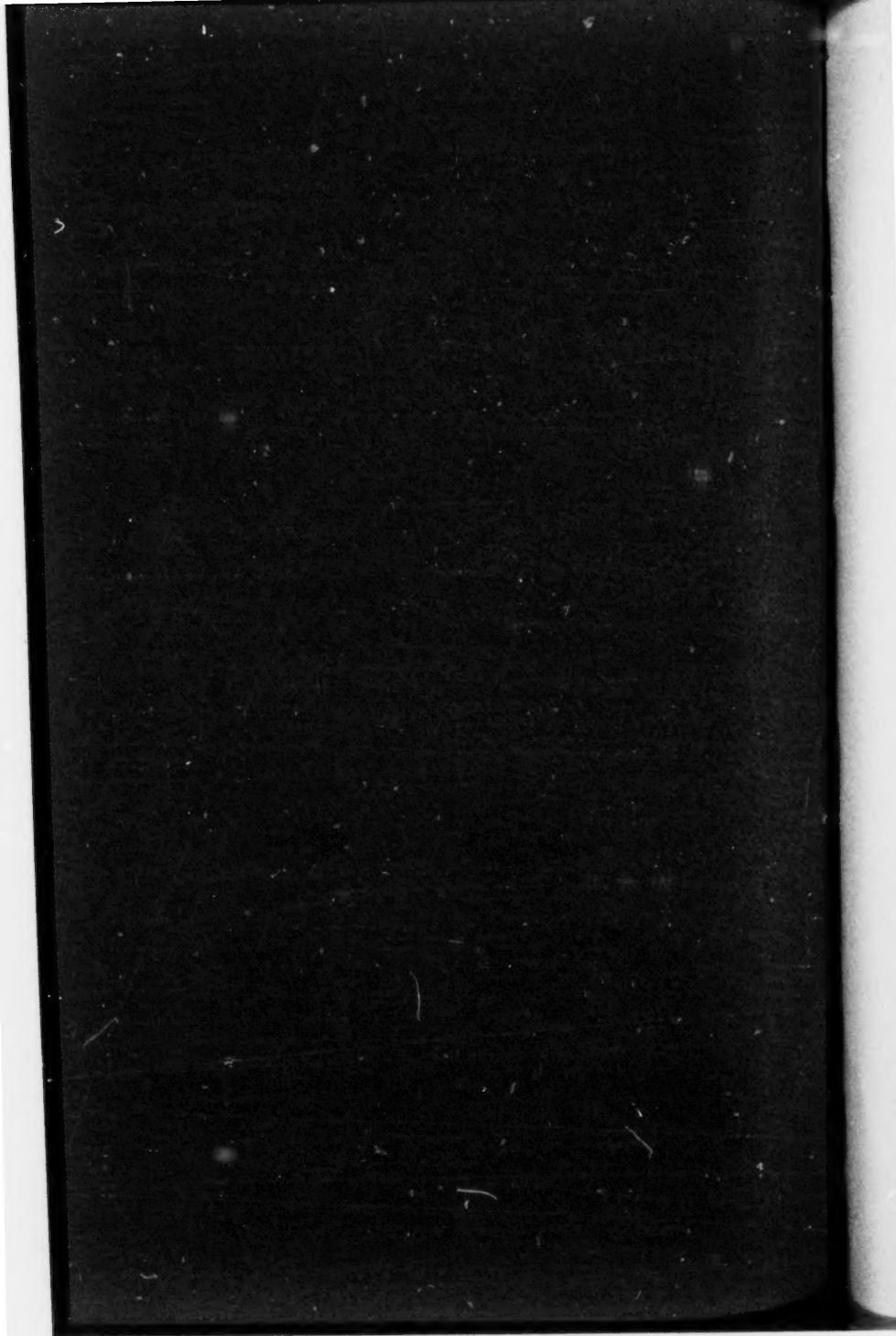
EDWIN J. PRINDLE.

Subscribed and sworn to before me }
 this 26th day of February, 1913. }

LISETTE BRODERICK,
 Notary Public.

(SEAL)





United States Supreme Court.

BAUER & CIE and THE BAUER
CHEMICAL COMPANY,
Appellants,

vs.

JAMES O'DONNELL,
Appellee.

Brief.

TO THE

HONORABLE THE JUSTICES OF THE SUPREME
COURT OF THE UNITED STATES:

This suit is pending before your Honors upon *certiorari* from the Court of Appeals of the District of Columbia. It involves the question of the right of a patentee to regulate the retail price at which his patented article shall be sold. The patent involved expires April 5th, 1915.

The Clerk of the Court informs us that, in the ordinary course, the cause could not be heard for trial under two years. That would mean that the patent involved would expire before decision of this court could be rendered, and that Appellants would therefore lose their monopoly. Your Honors' decision in the present cause will decide a number of cases in the courts below, including one

of the Gillette Safety Razor Company against the present defendant in the Court of Appeals of the District of Columbia.

It is therefore respectfully submitted that the ends of justice require that the hearing of the above-entitled cause be advanced to the present term, and such action is respectfully requested.

Very respectfully,

EDWIN J. PRINDLE,
Counsel for Appellants.

Supreme Court of the United States.

OCTOBER TERM, 1922.

No. 751.

BAUER & OIL and THE BAUER CHEMICAL COMPANY.

Plaintiffs-Appellants.

vs.

JAMES O'DONNELL.

Defendant-Appellee.

ON A CERTIFICATE FROM THE COURT OF APPEALS OF THE
DISTRICT OF COLUMBIA.

BRIEF FOR PLAINTIFFS-APPELLANTS.

EDWIN J. FREEMAN

Counsel for Appellants.

NEW YORK, N. Y.

EDWIN J. FREEMAN

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ERRATA AND ADDENDA.

At end of quotations on the following pages,
the legend should appear “(Italics ours)”:

- Page 12
- Page 13
- Page 18
- Page 32 (two occurrences)
- Page 36
- Page 62, line 12, “condition” should read
“contention”



Supreme Court of the United States.

BAUER & CIE AND THE BAUER
CHEMICAL COMPANY,
Plaintiffs-Appellants,

vs.

JAMES O'DONNELL,
Defendant-Appellee.

No. 951
October Term,
1912.

BRIEF FOR PLAINTIFFS- APPELLANTS.

Statement of the Case.

This case is certified to the Supreme Court of the United States by the Court of Appeals of the District of Columbia. The certificate contains the following statement of fact and question propounded by the Court of Appeals to the Supreme Court of the United States:

"The Court of Appeals of the District of Columbia certifies that the record in the above entitled cause, now pending in such court upon appeal from the Supreme Court of the District of Columbia, discloses the following: Bauer & Cie, of Berlin, Germany, copartners, being the assignees of letters

patent of the United States, dated April 5, 1898, No. 601,995, covering a certain water soluble albumenoid known as 'Sanatogen' and the process of manufacturing the same, about July, 1907, entered into an agreement with F. W. Hehmeyer, doing business in the City of New York under the trade name of The Bauer Chemical Company, whereby Hehmeyer became and has since been the sole agent and licensee for the sale of said product in the United States, the agreement contemplating that Hehmeyer should have power to fix the price of sale to wholesalers or distributors and to retailers, and to the public. The agreement further contemplated that said product should be furnished Hehmeyer at manufacturing cost, the net profits obtained by him to be shared equally by the parties to the agreement. Since April, 1910, this product has been uniformly sold and supplied to the trade and to the public by the appellants and their licensees in sealed packages bearing the name 'Sanatogen', the words 'Patented in U. S. A., No. 601,995,' and the following:

'Notice to the Retailer.

'This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar (\$1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.

'A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.

THE BAUER CHEMICAL CO.'

"The appellee is the proprietor of a retail drug-store at 904 F Street, N. W., in this

City. He purchased of the Bauer Chemical Company for his retail trade original packages of said Sanatogen bearing the aforesaid notice. These packages he sold at retail at less than one dollar and, persisting in such sales, appellants in March, 1911, severed relations with him. Thereupon appellee, without the license or consent of the appellants, purchased from jobbers within the District of Columbia, said jobbers having purchased from appellants, original packages of said product bearing the aforesaid notice, sold said packages at retail at less than the price fixed in said notice, and avers that he will continue such sales.

"The Court of Appeals of the District of Columbia further certifies that the following question of law arises upon the record, that its decision is necessary to the proper disposition of the cause, and, to the end that a correct result may be reached, desires the instruction of the Supreme Court of the United States upon that question, to-wit:

"Did the acts of the appellee, in retailing at less than the price fixed in said notice, original packages of 'Sanatogen' purchased of jobbers as aforesaid, constitute infringement of appellants' patent?"

The question raised by the certificate may be stated as follows:

Can a retailer sell a patented article having a license notice thereon restricting the price at which the article can be sold to the consumer, such sale being made at a lower price than the license price, without such sale constituting an infringement of a patentee's rights, when the article is made by the patentee, but is purchased by the retailer from a jobber?

What Plaintiffs'-Appellants' Patent Granted to Them.

As an inducement to make inventions, to disclose them to the public and to put them on the market the patent law said, in effect,—“If you will make an invention and disclose it to the public so that we may use it when your monopoly is dead, we will grant you the exclusive right to make, use, and sell the invention for seventeen years, after which it shall forever belong to the public.” We purposely put your reward in a form requiring you to benefit us by giving us a new industry in getting your own return. The three forms of enjoying the invention, viz.: making, using and selling, embrace all possible ways of deriving benefit from an invention. This “exclusive” right to make, use, and sell the invention is the right to exclude everyone else from any making, using or selling of the invention. The inventor needed no legislation to enable him to enjoy his invention by *himself* making, using, and selling specimens of it, for that is his natural right, but what the law could and did do for him was to give him the right to exclude *everyone else* from making, using or selling the invention during the brief monopoly which it secured to him. The monopoly which the law gives the inventor is *negative* in its character; that is, the right to exclude others from using the invention, the positive right to enjoyment being his natural right. This right of exclusion which the law granted to him is so complete that (as the Supreme Court decided in the Paper Bag Case, 210, U. S., 405, 52 L. Ed. 1122, 28 Sup. Ct. Rep. 748), the inventor may prevent everyone else from using the invention, even

though he himself does not use it during the life of the patent. The decision in this case was unanimous except for Mr. Justice Harlan, whose dissent was expressed in a single sentence.

We start, then, with the proposition that plaintiffs have the right to exclude everyone from any making, using, or selling of the patented invention. Therefore, when plaintiffs grant any right under the patent to anyone, they simply waive their right to exclude them from *all* making, using, or selling of the patented invention to the extent of the grant, and all ungranted right of exclusion remains in plaintiffs.

Plaintiff's notice of the price restriction on its packages is therefore notice to all the world that the right to sell the article below the price stated on the packages (\$1.00) is not granted and does not pass from the plaintiffs. That portion of the monopoly which consists in the right to exclude all others from selling the patented article below the price of \$1.00 is not removed from the article but remains in the plaintiffs. In selling the article in the case at bar the plaintiffs only withdrew the monopoly to the extent of allowing the article to be sold at retail at prices from \$1.00 upwards, but they retained the right to exclude all others from selling it at prices below \$1.00.

To put the matter in another way, when plaintiffs sold their packages, they only sold immunity from their right to exclude from any selling whatever, to the extent of granting immunity to sell the article at retail at a price of \$1.00 or upwards and retained the right to exclude all others from any selling of the article at retail at a price below \$1.00. Plaintiffs only *partially* released the packages from their power of exclusion.

If the packages had been once sold without any conditions, they would have passed forever outside of the monopoly and could never have been recalled, but when the packages were bought, either by a jobber or by defendant (O'Donnell a retailer) with the license restriction displayed on them in such a way that it could not fail to be noticed, the purchaser, whether it were the jobber or O'Donnell, only obtained a title to the packages limited as to the selling of them. They were at liberty to make any use of the packages within the limited immunity from the monopoly which was granted with the packages, but were not at liberty to trespass upon the portion of the monopoly reserved by the plaintiffs, viz.: The right to exclude all others from selling the packages at a retail price below \$1.00. As the defendant bought the packages of Sanatogen with knowledge of the conditions under which the jobber was authorized to sell the packages, the defendant was bound by such conditions, the conditions being a limitation of the grant of a license to sell the package.

Turning now to the specific question before the Court:

O'Donnell's infringement by selling at a retail price below one dollar, packages bought from jobbers and having the license restriction label on them.

The certificate shows that O'Donnell purchased of jobbers supplied by the plaintiffs for his retail trade, original packages of Sanatogen bearing the notice that the package was licensed for sale and use at a retail price not less than \$1.00,

and that he sold these packages at retail at less than \$1.00.

Price Restriction in the Supreme Court of the United States and in the Lower Federal Courts.

In *Mitchell v. Hawley*, 16 Wall, 544, Taylor, the patentee, granted Bayley the "exclusive right to make and use and to license to others the right to use" hat-making machines in the States of Massachusetts and New Hampshire during the remainder of the original term of the Letters Patent, subject to the stipulation that "the licensee shall not in any way or form dispose of, sell or grant any license to use said machines beyond the expiration" of the original term. Bayley made and sold four machines to Mitchell. The Supreme Court in *Mitchell vs. Hawley* held that Hawley (the owner of the extended patent) could enjoin Mitchell from using the machines during the life of the extension. The Court says:

"Patented implements or machines sold to be used in the ordinary pursuits of life become the private individual property of the purchasers, and are no longer specifically protected by the patent laws of the State where the implements or machines are owned and used. *Sales of the kind may be made by the patentee with or without conditions*, as in other cases, but where the sale is absolute, and without any conditions, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, or he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind." (Italics ours.)

The Supreme Court in *Henry vs. Dick* (p. 20), holds that the machines in *Mitchell vs. Hawley* were *sold*, and not leased. This, then, was a decision of the Supreme Court sustaining the right of a patentee to attach conditions to the sale of a machine even though the title to the machine passed to the purchaser, and held that the purchaser could be enjoined from violating those conditions. This is precisely the condition which would arise in the case at bar if the suit were against one who used Sanatogen after it had been sold at a retail price lower than \$1.00 (see the *use* restriction in the label). In both cases there was a sale with a condition attached, and the subsequent use of the invention after the violation of the said condition, or in violation of the said condition, was enjoined.

In the case of *Bement vs. National Harrow Co.*, 186, U. S. 70, a patentee imposed restrictions upon the sales, including the price at which the article should be sold, by agreements with manufacturers who were to make and sell the articles and pay the patentee a royalty. In that case the Court said:

“The provision in regard to the price at which the licensor would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition

that the assignee shall charge a certain amount for such article."

The foregoing paragraph is quoted by the Supreme Court in the recent case of *Henry vs. Dick*, 224 U. S. 1, 29, being followed by the following statement:

"If the stipulation in an agreement between patentees and dealers in patented articles, which, among other things, fixed a price below which the patented articles should not be sold, would be a reasonable and valid condition, it must follow that *any other reasonable stipulation*, not inherently violative of some substantive law, *imposed by a patentee as part of a sale of a patented machine, would be equally valid and enforceable*. It must also follow that if the stipulation be one which qualifies the right of use in a machine sold subject thereto, so that a breach would give rise to a right of action upon the contract it would be at the same time an act of infringement giving to the patentee his choice of remedies." (Italics ours.)

The Supreme Court has therefore sustained the right of a patentee to restrict the price at which the patented article shall be sold when such restriction is contained in an express agreement with a licensor, and has held that a violation of such restriction was an infringement of the patent. Under the next heading we shall show that such right was also in terms recognized in *Henry v. Dick*. The right of a patentee to restrict the price at which his article shall be sold by a license-restriction-notice attached to the article, of the same import as the notice in the present case, has been sustained by very many of the lower courts in the United States and by the courts of England.

We know of no case in which any Court of Appeals of the United States has refused to sustain such right. In the following cases the right of the patentee to so restrict the price at which his article shall be sold was sustained:

- Victor Talking Machine *vs.* The Fair, 123 Fed. 424 C. C. A., 7th Circuit (Judges Baker, Jenkins and Grosscup),
- New Jersey Patent Co. *vs.* Schaefer, 144 Fed. 437, (Judge McPherson), and 159 Fed. 171, C. C. E. D. of Pa. (Judge Holland),
- Rubber Tire Wheel Co. *vs.* Milwaukee R. W. Co. 154 Fed. 358 C. C. A., 7th Circuit (Judges Baker, Grosscup and Kohlsatt),
- Goshen Rubber Works *vs.* Single Tube A. & B. Tire Co., 166 Fed. 431 C. C. A., 7th Circuit (Judges Sanborn, Baker and Seaman),
- Thomas A. Edison *vs.* Ira M. Smith Co., 188 Fed. 925, C. C. W. D. Mich. (Judge Denison),
- Waltham Watch Co. *vs.* Keene, 191 Fed. Rep. 855, Feb. 15, 1912 (Judge Coxe),
- Automatic Pencil Sharpener Co. *v.* Goldsmith Bros., 190 Fed. Rep. 205 (Nov. 30, 1911) (Judge Lacombe),
- Indiana Mfg. Co. *v.* Nichols & Shepard Co., 190 Fed. 579 (Dec. 14, 1911) C. C. E. D. of Mich. (Judge Denison),
- Incandescent Gas Light Co. *vs.* Cantelo, 12 Rep. Patent Cases, 262,
- Same *vs.* Brogden, 16 Rep. Patent Cases, 183,
- Badische Anilin, etc. *vs.* Isler (1906), 1 Chancery 611,

- McGruther *vs.* Pitcher (1904), 2 Chancery, 306,
 National Phonograph Co. *vs.* Mench, 27 T. L. R., 239,
 The B. V. D. Co. & Cyrus M. Walker *vs.* S. J. Wolf *et al.* (certified copy to be handed up at the hearing),
 The Fair *vs.* Dover Mfg. Co., 166 Fed. 117,
 C. C. A. 7th Circ. (Judges Baker, Grosscup and Seaman).
 Edison Phonograph Co. *vs.* Kaufmann, 105 Fed. Rep., 960, (Judge Acheson).
 Edison Phonograph Co. *vs.* Pike, 116 Fed. Rep. 863, (Judge Lowell).
 National Phonograph Co. *vs.* Schlegel, 128 Fed. Rep. 733, C. C. A. 8th Circ. (by Judge, now Justice, Van Devanter, with Judges Sanborn and Thayer).
 New Jersey Patent Co. *vs.* Schaefer, 144 Fed. Rep., 437, (Judge McPherson).
 Robert H. Ingersoll & Bro. *vs.* Snellenberg, 147 Fed. Rep., 522, (Judge McPherson).
 Winchester Repeating Arms Co. *vs.* Buenger, 199 Fed. Rep., 786, (Judge Geiger).
 American Graphophone Co. *vs.* Pickard, 201 Fed. Rep., 546, (Judge Hazel).
 Lovell-McConnell Mfg. Co. *vs.* International Automobile League, 202 Fed. Rep., 219, C. C. A. 2nd Circ. (Judge Lacombe, with Judges Coxe and Ward).

Many of the foregoing cases are identical, in principle, with the facts in the present case.

Patentee's Control Over Selling Recognized in Henry vs. Dick.

The Supreme Court in *Henry vs. Dick*, (224 U. S. 1), says, at page 29:

(Page 29), "As to whether the restrictions upon sales imposed by the agreements were 'legal and reasonable conditions,' the court [in the Bement Case] said:

"*The provision in regard to the price at which the licensor would sell the article manufactured under the license was also an appropriate and reasonable condition* [italics ours]. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.'

"If the stipulation in an agreement between patentees and dealers in patented articles, which, among other things, fixed a price below which the patented articles should not be sold, would be a reasonable and valid condition, it must follow that any other reasonable stipulation, not inherently violative of some substantive law, imposed by a patentee as part of a sale of a patented machine, would be equally valid and enforceable."

The Court also cites with approval cases in which the right was sustained to restrict the price of resale, the portion of the decision referred to being as follows:

(Page 37) "As indicating the trend of judicial opinion that such license restrictions annexed to patented articles, when sold, constitute licenses under the patent, and that their violation by persons having notice constitutes an infringement of the patent, we here set out in the margin a number of the reported cases.

"It would lengthen this opinion unreasonably to make quotations from these opinions to show either the grounds upon which they go or their applicability. *Some of them concern sales subject to a restriction upon the price upon resale*, and others relate to a requirement that the article sold shall be used only in connection with certain other things to be bought from the patentee. We deem it well, however, to refer to the opinion of the circuit court of appeals of the eighth circuit, delivered by Judge (now Mr. Justice) Van Devanter in *National Phonograph Co. v. Schlegel*, cited above, because it draws so clearly the distinction between a conditional and an unconditional sale of a patented article. Speaking for the court, Judge Van Devanter said:

'An unconditional or unrestricted sale by the patentee, or by a licensee authorized to make such sale, or an article embodying the patented invention or discovery, passes the article without the limits of the monopoly, and authorizes the buyer to use or sell it without restriction; *but to the extent that the sale is subject to any restriction upon the use or future sale, the article has not been released from the monopoly, but is within its limits, and as against all who have notice of the restriction, is subject to the control of whoever retains the monopoly.* This results from the fact that the monopoly is a substantial property right conferred by law as an inducement or stimulus to useful invention and discovery, and that it rests with the

owner to say what part of this property he will reserve to himself and what part he will transfer to others, and upon what terms he will make the transfer.' ”

Again at page 23:

“A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, *sell*, and use, or it may be *limited to any one of these separable rights.*” (Italics ours.)

The right of the patentee to restrict the price at which his article shall be sold comes within the principle decided in *Henry vs. Dick*, 224 U. S. 1.

We shall now show, we respectfully submit, that the right of the patentee to restrict the price at which his article shall be sold comes within the principle decided in *Henry vs. Dick*, 224 U. S. 1.

In *Henry vs. Dick*, the patentee sold copying machines, known as “mimeographs,” with a label on them restricting their use to ink and other supplies bought from the patentee, precisely as in the present case, plaintiffs have sold their patented article with a label bearing the retail price restriction “not less than \$1.00.” Henry induced Miss Skou, the purchaser of a machine, to use Henry’s ink in violation of the restriction imposed by the label. Henry was not the purchaser of a mimeograph, but he knew of the restriction imposed by the label and induced Miss Skou to violate that restriction by using his (Henry’s)

ink upon the machine. Henry was held to be a contributory infringer and was enjoined.

In *Henry vs. Dick* it was argued for the defendant, as in the present case, that the sale of the machine passed it outside of the monopoly, and that complainant could only retain any control over it by a special contract or by lease with reversion of title upon condition broken. The Court says (p. 16):

"That a patentee may effectually restrict the time, place, or manner of using a patented machine, so that a prohibited use will constitute an infringement of the patent, is fully conceded. Thus, in the printed brief, counsel for defendants say: 'Aside from such special contracts, an agreement that the article shall be used only in a certain manner can be made only by way of lease of the article, terminating the lease upon condition broken, or by way of conditional sale, by breach of which the title reverts to the seller.' In either such case, counsel say, 'a use of the article in violation of the condition may terminate the lease or sale of the article (which) would become the property of the patentee again, and a use thereof by the lessee or purchaser may constitute a violation of the patent, for which an infringement may lie. . . . He cannot make a sale with the condition attached that the article shall be used or disposed of in a certain manner, leaving the title, however, in the purchaser in case of a breach of the condition.'"

The Court continues:

(Page 23.) "The argument for the defendants ignores the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in

the manner pointed out by the patent. The latter may be and often is the greater element of value, and the buyer may desire it only to apply to some or all of the uses included in the invention. But the two things are separable rights. If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale. A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, *sell*, and use, *or it may be limited to any one of these separable rights*. If it be a license to use, it operates only as a right to use without being liable as an infringer. If a licensee be sued, he can escape liability to the patentee for the use of his invention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defence. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. 2 Robinson Patents, §§806, 808.

“We repeat. The property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases. * * * * *

(Page 24) "It is plain from the power of the patentee to subdivide his exclusive right of use that when he makes and sells a patented device, that the extent of the license to use which is carried by the sale must depend upon whether any restriction was placed upon the use and brought home to the person acquiring the article.

"That here the patentee did not intend to sell the machine made by it subject to an unrestricted use is, of course, undeniable from the words upon the machine, viz.:

'LICENSE RESTRICTION.'

'This machine is sold by the A. B. Dick Company, with the license restriction that it may be used only with the stencil, paper, ink, and other supplies made by A. B. Dick Company.'

"The meaning and purpose of this restriction was that while the property in the machine was to pass to the purchaser, the right to use the invention was restricted to use with other articles required in its practical operation, supplied by the patentee. * * *

"(Page 25) Such a sale, while transferring the property right in the machine, carries with it only the right to use it for practicing the invention according to the terms of the license. To no other or greater extent does the patentee consent to the use of the machine. When the purchaser is sued for infringement by using the device, he may defend by pleading, not the general and unlimited license which is carried by an unconditional sale, but the limited license indicated by the metal tablet annexed to the machine. If the use is not one permitted, it is plainly an infringing use.

"If, then, we assume that the violation of restrictions upon the use of a machine made and sold by the patentee may be treated as an infringement, we come to the question of the

kind of limitation which may be lawfully imposed upon a purchaser.

"To begin with, the purchaser must have notice that he buys with only a qualified right of use. * * * * *"

It is clear, therefore, that under precisely the circumstances of the case at bar, if the restriction had been one of use rather than sale, the decision in *Henry vs. Dick* would entitle plaintiffs to an injunction. The sole question, therefore, in the case at bar is whether or not a patentee has the same control over the selling of his patented article as *Henry vs. Dick* gives him over the using of his article.

Defendant O'Donnell is a contributory infringer precisely like Henry in Henry v. Dick.

In the case at bar, the license restriction upon the label forbids the *use* of the package Sanatogen after it has been sold at a retail price of less than one dollar in the following language:

"Notice to the Retailer.

"This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar (\$1.00). Any sale in violation of this condition, *or use when so sold*, will constitute an infringement of our patent No. 610,995, under which Sanatogen is manufactured, and all persons so selling *or using* packages or contents will be liable to injunction and damages."

When O'Donnell sold Sanatogen at a retail price of less than one dollar to a purchaser and

directly, or by implication, induced that purchaser to use Sanatogen he committed an act of contributory infringement within the following definition, appearing at the foot of page 33 of *Henry v. Dick*:

“ ‘Contributory infringement,’ says Judge Townsend in *Thomson-Houston Electric Co. v. Kelsey Electric R. Specialty Co. supra*, ‘has been well defined as the intentional aiding of one person by another in the unlawful making, or selling, or using of the patented invention.’ ” (Citations.)

We therefore submit that O'Donnell's inducing a purchaser to violate the *use*-restriction of Sanatogen by using it, by and after a sale at less than a retail price of one dollar is precisely analogous to Henry's inducing Miss Skou to violate the *use*-restriction of the mimeograph by selling her ink for the purpose and with the intention of having her use it with the machines.

The patentee's monopoly of selling is co-ordinate with that of using his patented article and subject to the same degree of control.

Henry *v. Dick* sustained the patentee's right to impose conditions on the use of his article, even though the title to the physical materials of which it was composed pass to the purchaser. We shall now show that the patentee's monopoly over the sale of his article is of the same nature and extent as that over the using of his article, and that therefore he has the same right of control.

The three branches of the patentee's monopoly, viz.: making, using and selling, are strictly

analogous and have, with few exceptions in the United States courts, and without exception in the Courts of Appeals of the United States, been so treated. The Supreme Court recognizes this in *Henry v. Dick* (p. 23) in the following language:

“A license is not an assignment of any interest in the patent. It is a mere permission granted to the patentee. It may be a license to make, sell and use, or it may be limited to any one of these three *separable* rights.” (Italics ours.)

Again, foot of page 25:

“If the patent be for a machine, the monopoly extends to the right of making, selling and using, and these are separable and substantial rights.”

Again, the Supreme Court, in *Henry vs. Dick*, p. 45, says:

“To the inventor, by Sec. 4884, Revised Statutes (U. S. Comp. Stat. 1901, p. 3381), there is granted ‘the exclusive right to make, use, and vend the invention or discovery.’ This grant, as defined in *Bloomer vs. McQuewan*, 14 How. 549, 14 L. Ed. 537, ‘consists altogether in the right to exclude every one from making, using, or vending the thing patented.’ Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes.” (Citations.)

The court here recognized the right of the patentee to qualify the right to sell the patented article.

Again, in *Adams v. Burke*, 17 Wall., 453, the Court, by Mr. Justice Miller, says:

"The right to manufacture, the right to sell and the right to use, are each substantive rights and may be granted or conferred separately by the patentee."

In *Bement v. National Harrow Company*, the right to control the sale of the patented articles was expressly treated as co-ordinate to the right to manufacture. The Court says:

"These contracts directly affect, *not as a mere incident of manufacture*, the sale of the implements all over the country, and the question arising is whether the contracts which thus affect such sales are void under the act of Congress." (Italics ours.)

In the Bath Tub decision, *Standard Sanitary Mfg. Co. v. United States of America*, rendered in November, 1912, the Supreme Court could have decided that the patentee had no right to restrict the retail price at which his article should be sold, but the Court made no such holding.

Plaintiffs did not receive the full consideration for the patented article when they received the purchase money from the defendant or the jobber, and they have a continuing interest in the article.

We shall now show that the price from the jobber, or Defendant, did not constitute the full consideration for which the patented article was sold,

but that Plaintiffs have a continuing interest in the article. We shall also show that Plaintiffs need the control over the resale price and that it is sound public policy to give it to them.

In granting the exclusive right to make, use and sell, the patent statute grants a complete monopoly of all possible ways of enjoying the invention. This is in accordance with the provision of the Constitution which provides that Congress shall have power to grant the "exclusive" right to the inventor in his invention. The inventor, having the entire right or monopoly can subdivide it as he pleases, without having to be careful to distinguish between making, using and selling.

In the present case, the rights as to sale and use are so interwoven it is difficult to distinguish between the two. The label states that the package is "licensed for sale *and use* at a price not less than \$1.00"; also that "any sale in violation of this condition, *or use when so sold* will constitute an infringement of our patent No. 601,995 under which Sanatogen is manufactured, and all persons so selling or *using* package or contents will be liable to injunction and damages." Therefore, a resale at a price below the restricted price would immediately make a use an infringement, such use not being an infringement without such re-sale. A use after re-sale below the restricted price would also be an infringement under *Henry v. Dick*. That Plaintiffs having a continuing interest in the article, the same as in *Henry v. Dick*, is thus apparent.

Such continuing interest is also shown by the fact that, providing for the sale of the article at a fixed price is a valuable consideration. It af-

fects all of Plaintiffs' future sales, and is a right which could not be maintained if it were not for the patent. The inventor needs such advantage, during his brief monopoly, in order that he may recoup his expenditures (sometimes amounting to hundreds of thousands of dollars), and his time in the development of the invention.

By maintaining a good retail price on Sanatogen, the druggist is in position to afford, and is induced to put his best salesmanship and efforts into selling and advertising Sanatogen. This is equivalent to expensive advertising undertaken by Plaintiffs, which would cost money, and is a valuable consideration, which is practically a further cash consideration.

In this way it will appear that the Plaintiffs have a continuing interest in the article in the present case, the same as in *Henry v. Dick*.

It is further to be observed that if a sale exhausts the patentee's right as to a control of the future price at which the article is to be re-sold, that is, control of the sale, it also exhausts his right as to the control of the future use of the article. There can be no distinction. This would be contrary to the decision in *Henry v. Dick*, in which it was held that, notwithstanding the title to the physical materials passed to the purchaser, the patentee could require that the purchaser use the article only in certain specified ways, viz., with materials bought from the patentee. From this it follows that the sale of the article cannot exhaust the right of the patentee to control the price at which it shall be re-sold.

Moreover, the label on the package of Sanatogen states that "all rights revert to the undersigned in the event of violation," which, in itself, shows

that the patentee did not part with all of his rights in the sale. It is to be observed that the license restriction in *Henry v. Dick* did not contain any such reservation.

In *Mitchell vs. Hawley*, 16 Wall., 544, four hat-making machines were sold by a licensee whose license contained the condition that he should not, in any way or form, dispose of, sell or grant any license to use said machines beyond the "expiration of the original term." The purchaser of the machines used them during an extension of the patent. The Supreme Court in *Henry vs. Dick* (p. 20) holds that these machines in *Mitchell vs. Hawley* were sold and *not leased*. The Supreme Court sustained the right of the patentee to enjoin the purchaser from using the machines during the extension. This is precisely the condition which would arise in the present case if the suit were against one who used Sanatogen after it had been sold at a retail price lower than \$1.00. In both cases there was a sale with a condition attached, but as in *Mitchell vs. Hawley* such sale was held not to exhaust the patentee's rights, so also here the sale does not exhaust the patentee's rights.

It will thus be seen that plaintiffs did not receive their full consideration when they received the purchase money from the defendant or the jobber, and that they have a continuing interest in the package sold.

Patentee's control over the price of his article reasonable, proper and consistent with sound public policy.

We shall now show that to sustain the patentee's right to fix the price of his article is reason-

able, proper, consistent with sound public policy and operates to the benefit of the public.

In the first place the inventor must make his invention sufficiently perfect to patent it. He often spends a considerable amount of time and frequently a large amount of money (sometimes amounting to hundreds of thousands of dollars) in the development of the invention.

After the invention has been worked out in principle (which is often as far as the inventor can go) it must be still further developed so as to be practical, durable, efficient, and in general commercial form, and reliable and efficient methods of manufacture must be worked out to make the article within a salable cost.

When a manufacturer begins to manufacture an article already known, he does not start with any such load of expense. In order to induce inventors to make inventions and get them into commercial form, the inventor must have an advantage during his comparatively brief monopoly, in order that he may recoup his expense of development, and that advantage should be large enough to induce him to take the risk of not "arriving" at all.

This cost of commercial development of an invention already made in principle, and of working out and perfecting methods of manufacture is usually so great that, to give an invention to the world without patenting it is to cause it to fall still-born; for no manufacturer can afford to undertake such expense when his competitor can copy the article and methods of manufacture without cost, the moment the article is made public. Therefore, even if one wished only to give an invention to the public, it would usually be necessary to patent it.

Furthermore, it is not sufficient that an invention be brought into condition ready for the market. It is of little use to the public until it has been introduced upon the market. In the case of an invention where the patented article is new as a whole,—is wholly due to the patent, like Sanatogen, which is a new substance (water-soluble albumen) as new as if fresh from the hands of the Creator,—there is no demand whatever for the article. The public has never heard of it, does not know of its uses, and does not even know that its uses are beneficial ones. There is no demand whatever for it, and after all the physical and chemical development, a new industry must be developed—a demand created.

The United States Courts have recognized this fact, and while they have sustained patents, the inventions of which have not been commercially introduced by their inventors, they have always considered it as an equity in the inventor's favor if he has created or supplied a commercial demand for his article, and have treated his patent with greater liberality in determining questions of scope and validity.

A specific illustration often greatly illuminates an argument, and upon the argument of a demurrer, as in the present case, it is proper to suggest a state of facts which, if proven, would establish a basis upon which the Bill could be sustained at final hearing, for we apprehend that if there is a possible, reasonable theory upon which the Bill could be sustained, in the light of equities shown by such facts, the demurrer will be overruled.

While the history of Sanatogen is not before the Court, even so far as it is recited in the Bill of Complaint, we wish to recite its history, but in

order to avoid appearing to introduce evidence to answer a demurrer, the facts recited may be treated as an imaginary example, merely for the purpose of illustration.

Sanatogen, like many chemical inventions, was a result of long and expensive experiment by more than one chemist. It consists, as shown by the patent, of pure albumen and glycerophosphate of sodium. The object was to provide a water-soluble form of albumen combined with the glycerophosphate of sodium, the albumen being the substance of which tissues are formed and by which they can be reconstructed, and the glycerophosphate being nutriment and tonic for the nerves, and also rendering the albumen soluble in water so that it can be assimilated by the blood so much more readily than albumen in its ordinary state, that the blood could take it up when impoverished. As the albumen is only thus assimilable when in a perfectly pure state, very expensive methods had to be devised for freeing it from all fat, starch, or other substance. The result was large expense in preparing the invention for the market. After having perfected the invention it was still of no value to its owners or the public, until the public could be taught its usefulness and induced to use it. For that purpose physicians were employed to conduct numerous tests, and a children's hospital, having a capacity of between twenty and thirty children, was established and physicians of large experience employed for the purpose of testing the results of Sanatogen upon children, children being preferred because they were not open to suggestion (especially when very young), as older people might be and the result would, therefore, be more unquestionable. Having convinced a

sufficient number of physicians in this manner, a large and expensive campaign of advertising was undertaken, and before any profits were realized upon Sanatogen over a quarter of a million dollars in five years' time had been spent, almost exhausting the resources of the owners.

This history, even though it be assumed to be fictitious, is typical of chemical inventions. In order that the patentees of Sanatogen might reap any reward from their service to the public, and in order that other inventors might have an incentive to make further inventions and disclose them to the public, it is obviously necessary that the patentees of Sanatogen should have some way in which to recoup this quarter of a million dollars.

The power of fixing a uniform retail price has been shown by experience to be one of the most efficient instruments in enabling the inventor to create a demand for his patented article for which frequently there is no demand whatever.

It is common practice for concerns like the Defendant to attract attention to themselves and pose as the friend of the public by advertising a patented article of well-known high price fixed by patent license, at a price at or below cost to the advertiser, for the sole purpose of attracting customers for other goods, the advertiser making up the profit on some class of goods where the public does not so well know the usual price. A favorite scheme is to induce the customer who came to buy the patented article at the cut price to take a substitute on which the profit is larger even at a lower price. This gives the impression to the public that the cut price represents a profit to the seller and that the worth of the article must be below that price, so that

subsequent quotations of the full price, or even a price affording any margin of profit, causes public resentment. The result is that a large portion of the public will do without the article rather than submit to the supposed imposition, and that regular dealers, being met with this resentment, refuse to carry the article in stock. This deprives the public in some instances of facilities for getting the article at all. It frequently happens that the cut-price house, having accomplished its advertising purpose, also ceases to carry the article, after its advertising value has been exhausted. In any event, competitors of the advertising house are compelled to cut the price, if the violation of the patent license is not restrained. This cutting of the price on the patented article compels the patentee to reduce its cost to him, if possible, so that he can meet the lower price. In the case of Sanatogen it would if unrestrained mean either the use of cheaper chemicals from which to form it, or of less thorough or perfect methods of manufacture, so that the article itself would be deteriorated, and the portion of the public which used the article would thus suffer.

Further, by being able to fix a price which will give every dealer a sure and large profit, the patentee makes it worth the dealer's while to advertise and recommend and push the sale of the patented article. The sound public policy of enabling him to do this will be seen when it is borne in mind that the article is frequently one for which there is no demand whatever, because the public, not having known of the article, or not being acquainted with its advantages, or usefulness, had never even thought of asking for it. Thus there

is in the retail price a portion which really belongs to the patentee and which he, by the price restriction license, is enabled to pay to the retailer, or to *cause* the retailer to pay to himself, so that the retailer's interest will result in his personally exploiting the article and creating a demand for it and building up a trade in it.

It will thus be seen that the patentee's control over the price of his article is reasonable and proper, is often necessary, and is consistent with sound public policy.

O'Donnell's purchase from jobber instead of from Plaintiffs does not relieve him from infringement, as he had notice through Price restriction on label.

Counsel for Defendant will argue that as Plaintiffs obtain from the jobber the price which they require from jobbers for the packages, the packages passed outside of the monopoly and that when Plaintiffs are seeking to restrict the price at which the Defendant can sell they are seeking to again draw the article within the monopoly.

The error in this reasoning lies in the assumption that the jobber secured an unrestricted title to packages free from all monopoly. The jobber had notice on the label of the license restriction that Plaintiffs retained that portion of their monopoly which consists in the right to exclude all others from selling the packages at retail at a price lower than \$1.00. If the jobber himself had sold the packages at retail, at a price lower than \$1.00, he would have been unquestionably infringing the reserved (or ungranted) portion of the

monopoly and would have been liable to an injunction. It is fundamental that, unless the quality of innocence intervenes, the vendee obtains no better title than the vendor.

"It is axiomatic in all departments of the law that unless the quality of innocence intervenes, the title of the purchaser is no better than his seller's."

Victor Talking Machine Co. *vs.* The Fair,
123 Fed. Rep., 427.

O'Donnell had notice of the license restriction, or reserved, or ungranted, portion of the monopoly, and he also therefore had knowledge of the qualified title which his vendor had to the packages. O'Donnell took the packages with the knowledge of the limitation upon the title and was subject to that limitation. When, therefore, O'Donnell sold the packages obtained from the jobber at a retail price lower than \$1.00, he was violating the monopoly just as much as when he bought the packages directly from Plaintiffs.

The Supreme Court in *Henry v. Dick* repeatedly indicates that all that is necessary to constitute one an infringer of the patent who uses a restricted article is notice to him of the restriction. It would therefore not be necessary that there should be any contractual relations between him and the patentee.

The Court says at page 34:

"The conclusion we reach is that there is no difference, in principle, between a sale subject to specific restrictions as to the time, place, or purpose of use, and restrictions requiring a use only with other things necessary to the use of the patented article purchased from the patentee. If the violation of

the one kind is an infringement, the other is also. That a violation of any such restriction annexed to a sale *by one with notice* constitutes an infringing use has been decided by a great majority of the Circuit Courts and Circuit Courts of Appeal, and has come to be a well recognized principle in the patent law. in accordance with which vast transactions in respect to patented articles have been conducted."

And again at page 37:

"As indicating the trend of judicial opinion that such license restrictions annexed to patented articles, when sold, constitute licenses under the patent, and that their violation *by persons having notice* constitutes an infringement of the patent, we here set out in the margin a number of the reported cases.

"It would lengthen this opinion unreasonably to make quotations from these opinions to show either the grounds upon which they go or their applicability. Some of them concern sales subject to a restriction upon the price upon resale, and others relate to a requirement that the article sold shall be used only in connection with certain other things to be bought from the patentee."

This is not an action upon a contract, but a bill in equity to restrain a tort, consisting of a trespass in entering upon the reserved portion of the patentee's monopoly.

In the following specific cases the Defendant was restrained from reselling a patented article below a retail price limit indicated on the article by a label, although the Defendant, in each instance, bought the article from a jobber or some one other than the owner of the patent.

New Jersey Patent Co. *vs.* Schaefer, 144 Fed. 437, and 159 Fed. 171 (C. C. E. D. of Pa.)

Thomas A. Edison *vs.* Ira M. Smith Co., 188 Fed. 925 (C. C. W. D. Mich.).

Automatic Pencil Sharpener Co. *vs.* Goldsmith Bros., 190 Fed. Rep. 205 (Nov. 30, 1911) (Judge Lacombe).

Victor Talking Machine Co. *vs.* The Fair (*supra*), 123 Fed. 427 (C. C. A. 7th Circ.).

In the latter case the Court says:

“ It is axiomatic in all departments of the law that, unless the quality of innocence intervenes, the title of the purchaser is no better than his seller's. The bill directly charges appellee, a dealer, with prior knowledge of the terms on which the jobber came into possession of the machines. Whether or not appellee covenanted to be bound by the terms is not alleged, and whether or not an implied promise arose from appellee's purchase is immaterial in this case, for the suit is not upon a promise to keep out of the reserved portion of the monopoly, but is for the trespass in entering without permission.”

O'Donnell therefore infringed the patent both when he cut the retail price on the patented packages bought directly from the Plaintiffs and when he did so on the patented packages bought indirectly from Plaintiffs, as through the jobber.

The Decisions in "Waltham Watch Company v. Charles A. Keene."

In the Court of Appeals, Counsel for Defendant in the case at bar was unable to cite a case which sustained his contention. It is presumed he will cite Judge Ray's decision in *Waltham Watch Company v. Charles A. Keene*, rendered in February, 1913. This decision was in the United States District Court for the Southern District of New York, and has not yet been reviewed by the Court of Appeals for that Circuit.

In this same case his Honor, Judge Coxe, overruled the demurrer, sustaining the patentee's right to fix the price of resale. 191 Fed. Rep., 855. Therefore the case has been decided by a Circuit Judge favorably to the patent and by a District Judge adverse to the patent.

The conditions in the Waltham case differed from the present case in the following particulars: Although the retail price was restricted, a use was not forbidden (as in the present case) if the article were sold at less than the restricted price. A violation of the conditions only re-vested in the Company the title to the watch movement upon tendering payment therefor of the price paid for the same, while, in the present case, "all rights revert" to the Plaintiffs "in the event of violation." The patents in the Waltham case only covered features of the watch movement, but the watch movement as a whole was not patented. In the case at bar, the patent covers the composition of matter as a whole, which constitutes the contents of the package. In the Waltham case, the purchase was only from a jobber, whereas, in the present case, the Defendant pur-

chased both from the Plaintiffs and from jobbers. In the Waltham case the patentees did not create the demand for the watch, as that demand already existed, and their inventions only related to details. In the present case the invention created an absolutely new substance, Sanatogen, for which there never was any demand until one was created at great expense by the Plaintiffs.

The whole decision in *Waltham Watch Co. v. Keene* is based upon the assumption that the patentee or his assignee, by the sale, received the full consideration which he demanded and that he is to receive no further profit or benefit from the transaction.

Judge Ray's position on this point is clearly represented in the following quotation:

"In *Henry v. Dick Co.*, 224 U. S. 1, it seems plain from the statement of facts in the case and the opinions that the patentee sold the articles covered by the patent for less than cost and did not reap his reward for his invention, that is, his royalty or consideration for the use of his patented invention or article by way of price charged, but by way of the limitation on the use of same, that is, the provisions that the supplies used with and on the machine should be purchased of the patentee and of his manufacture and at his price. It was in this way that the patentee protected himself or secured his reward for the use of his invention.

"In the case before the court we have no such facts. It appears that the patentee has received and does receive *his royalty* or consideration for the use of the patented article, —watch movement,—when he sells the movement. In no event does he receive any added or further compensation or consideration for the movement. In no way is he concerned with the sales made thereafter by dealers or

with the prices they charge or receive for the movements unless it be that he is interested to have the price of the movement maintained on the theory it would injure the standing of the movements as an article of commerce to have them sold for a lesser price than that fixed by the manufacturer. In *Adams v. Burke*, 17 Wall. 453, 456, the court said, 'That is to say, the patentee or his assignees *having in the act of sale received all the royalty* or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser *without further restriction* on account of the monopoly of the patentee.'

"It is plain that the Dick case is not within or covered by this language for the reason stated. The case at bar is within this holding for the reason the patentee or his assignee has sold and parted with the movements on receipt of his full price or consideration. He is to reap no further profit from the transaction. Having fixed and received his consideration, including royalty, he goes further and attempts to fix and control the price at which others shall sell,—part with their interest in the watch movements. He is attempting to control the *price* of these movements in the open market after parting with title and possession and after having, as to the particular articles, exercised fully the right or monopoly the patent law gives him, viz.: The sole and exclusive right to vend the article. It does not seem to me that the patent statute goes beyond this, as to vending, and confers on the patentee when he exercises the right to vend and does vend, that is, sell, the right to attach to the article in the hands of subsequent purchasers a limitation that it must be sold for a price fixed by the patentee or his assignee."

We have shown under the preceding heading,
 "Plaintiffs Did Not Receive Full Consideration

For The Patented Article When They Received The Purchase Money From the Defendant, or The Jobber, And They Have a Continuing Interest in The Article" that the assumption by Judge Ray does not apply to the case at bar, for Plaintiffs are not "attempting to control the price of the article in the open market after parting with title and possession and after having, as to the particular articles, exercised fully the right or monopoly the patent law gives him, viz., the sole and exclusive right to vend the article." We have shown that the patentee has not yet received the full consideration and that he has a continuing interest in the article of essentially the same nature as that which Dick had in *Henry v. Dick*.

We submit that we have also shown, from the law and the decisions, that the patentee has a right to restrict the retail price at which his article shall be sold.

With all deference, we submit Judge Ray has failed to distinguish between a sale which only partly releases an article from the right to exclude all others from any selling whatever, and a sale, as in *Adams v. Burke*, in which the sale was unconditional.

The Court in the Waltham case could not have intentionally meant to hold that a conditional sale could not be made, for that would be contrary to *Henry v. Dick*, and to *Mitchell v. Hawley*, supra.

In *Henry v. Dick* (foot of page 23) the Court said:

"The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not per-

mitted is necessarily reserved to the patentee. If that reserve control of the use of the machine be violated, the patent is thereby invaded."

Moreover, if a sale exhausts the right of the patentee, so that he cannot restrict the resale price, it also exhausts his right so that he cannot restrict the future use of the article, and the right to so restrict the future use is exactly what was sustained in *Henry v. Dick*. The patentee also, in the case at bar, has restricted the use of the article subsequent to sale, forbidding a use of it, after a resale at a price below \$1.00, thus clearly coming within *Henry v. Dick*.

In *Mitchell v. Hawley*, the Court said:

"Patented implements or machines sold to be used in the ordinary pursuits of life become the private individual property of the purchasers, and are no longer specifically protected by the patent laws of the state where the implements or machines are owned or used. Sales of the kind may be made by the patentee *with or without conditions*, as in other cases; but where the sale is absolute, and *without any conditions*, the rule is well settled that the purchaser may continue to use the implement or machine purchased until it is worn out, and he may repair it or improve upon it as he pleases, in same manner as if dealing with property of any other kind." (Italics ours).

This is quoted with approval in *Henry v. Dick*, page 20.

Judge Ray's reference to the Folding Bed case, 157 U. S., overlooks the fact that the sale in that case was an unconditional sale, and was so held in *Henry v. Dick* (page 18) in the following language:

"In the cases cited above [of which one was the Folding Bed Case], as well as the leading case of *Bloomer v. McQuewan*, 14 How., 539, 14 L. Ed., 532, the statement that a purchaser of a patented machine has an unlimited right to use it for all the purposes of the invention, so long as the identity of the machine is preserved, was made of one who bought *unconditionally*; that is, subject to no specified limitation upon his right of use." (*Italics ours.*)

This decision, therefore, has no bearing on the case at bar, and the language quoted had no reference to the distinction in the present case.

In the Folding Bed case the assignee of the monopoly for the State of Michigan sold folding beds by an *unconditional* sale to one who sold beds in Massachusetts. The assignee of the State of Massachusetts sought to enjoin such sale, but it was held that, as the sale was completed in Michigan, and as it was *unconditional*, the bedsteads had passed outside the monopoly and there was no violation of rights in Massachusetts.

We shall discuss the decision in *Bobbs-Merrill v. Straus* under the next succeeding heading, and in connection therewith answer the references to it in the *Waltham Watch Co.* case. We merely observe at this point that *Henry v. Dick* in discussing the *Bobbs-Merrill* case emphasizes the *use*, as *Henry v. Dick* related to a use, but we shall show, we believe, that if the condition in *Henry v. Dick* had related to the sale, the Court would still have sustained said condition and distinguished it from vending under the copyright statute. We also observe that Judge Ray in discussing the *Bobbs-Merrill* case assumes that in the *Waltham* case the money consideration which the patentee received was the *full*

compensation for his invention. That, at least, is certainly not true in the present case.

The case of *Dr. Miles Medical Co. v. Park & Sons Co.* referred to in the *Waltham* case is not in point, for in that case, although the invention had not been disclosed to the public through a patent, it was sought to obtain the same protection which the owner would have had by patenting the invention. In other words, the inventor was claiming the reward which the patent law offered, while withholding the consideration which the patent law required, viz., a disclosure of the invention, the inventor there using his invention in secret. In discussing the *Dr. Miles* case, the Court again assumes that the patentee has received the full consideration for his article.

In *Henry v. Dick* The Supreme Court sustained the right of a patentee to attach a condition to a sale, notwithstanding the decision in the *Dr. Miles* case, which the Court specially distinguished at the foot of page 38.

Judge Ray, referring to what he calls a sale for "full compensation," which we have shown is not such a sale as in the case at bar, with an attempt to restrict the re-sale price, says:

"It is an attempt to monopolize and control prices and destroy competition, and when a jobber or dealer takes a number of such articles for sale to others under such a restriction as to the sales made by himself, there is at once a combination to fix prices and restrain trade in contravention of a sound public policy."

No combination exists in the case at bar, as all relations between jobbers and dealers are under restrictions imposed directly by the Plaintiffs,

and there is no combination or conspiracy between the dealers as in the Bath Tub case, where the licensees formed an organization and regulated prices and conditions by combination and agreement. In the Bath Tub case the Court implied that if the conditions had been imposed directly by the patentee, without any conspiracy or combination or co-operation between the licensees, the action would have been within the rights of the patentee.

No combination in restraint exists in the case at bar, or in the Waltham Watch Case, for the reason that the trade referred to in the Sherman Act and contemplated by the Common Law doctrine is trade in articles in which the public has a right to trade, namely, unpatented articles. It is trade in which the public owns the right of free competition and therefore restraint of which would be the taking away from the public of something which belonged to it. The trade, however, in the present case and in the Waltham Watch Case is trade in an article which the patentees created and in which the public has no rights until the expiration of the patent. The public never had any rights of free competition in the article, because the article never existed until created by the inventors. The very object of the Patent Law was to give the inventors a monopoly, and whatever restraint there may be in dealing in the patented article is wholly within the patent; that is, within the lawful limits of the monopoly, and is therefore not such restraint of trade as contemplated by the Sherman Act or the Common Law doctrine. See

Bement v. Harrow Co., 186 U. S., 70

where the Court said, in reference to the Sherman Act:

"But that statute clearly does not refer to that kind of a restraint of interstate commerce which may arise from reasonable and legal conditions imposed upon the assignees or licensees of a patent by the owner thereof, restricting the terms upon which the article may be used and the price to be demanded therefor. Such construction of the act we have no doubt, was never contemplated by its framers."

See also Mr. Justice Lurton in *Park v. Hartman*, 153 Fed. Rep., 24, 27; *Rubber Tire Wheel Co. v. Milwaukee R. Co.*, 154 Fed. Rep., 358 C. C. A. 7th Circ., (Judge Baker with Judges Grosscup and Kohlsaat).

Replying to Judge Ray's objection, near the foot of page 15, that the price for future sales was fixed on a watch movement "not itself patented or covered by a patent, but which embodies in its consideration two or three subordinate or essential parts which are covered by patents, and which articles have been sold by the patentee or assignee for the full price he is to receive * * *." We again call attention to the fact that the patent in the present case covers the entire article as a single chemical combination of matter and does not cover mere detail portions, as in the watch case, if such a distinction be necessary.

In reply to Judge Ray's intimation that the right of price restriction is "one not reasonably necessary to protect the patentee and which is inimical to dealers and users, that is the general public," we call attention to the showing we have made of the necessity for such control and of its desirability on grounds of public policy under the

heading "Patentee's Control over the Price of His Patented Article Reasonable, Proper and Consistent with Sound Public Policy." We have very clearly shown, we submit, that the patentee does need such control and that sound public policy requires that the control be sustained.

Under the same heading "Plaintiffs Did Not Receive The Full Consideration For The Patented Article When They Received The Purchase Money From The Defendant Or The Jobber And They Have A Continuing Interest In The Article", we show, contrary, we respectfully submit, to the statement of Judge Ray, at the foot of page 16, that in the present case, precisely as in *Henry v. Dick*, the patentee did reserve an interest in or claim to part of the proceeds of resale by the dealers, in effect, and did not receive his full consideration or compensation or tribute for his invention.

We have also shown under the same heading that it being lawful, under *Henry v. Dick*, to retain the article after sale within the monopoly by conditions attached to the sale, even though those conditions related to use, it necessarily follows that it is lawful to retain Sanatogen under the monopoly under conditions attached to the sale.

We have also shown that to deny the right to impose conditions as to future sales would logically result in a denial of the right to impose conditions as to future use.

Henry v. Dick held, in effect, that the patentee could fix the prices on unpatented supplies, for his condition requiring the purchaser of the mimeograph to purchase ink and paper from the patentee involved the purchase of those supplies at prices fixed by the patentee (at least at the time

of sale). Therefore, *Henry v. Dick* did, in effect, sustain the right of the patentee to attach conditions to a sale involving future sales. It might well be held that the patentee of the mimeograph impliedly agreed that the price of the ink and paper should remain the same to the purchaser of the machine as at the time of the purchase of the machine, but even if that were so the decision sustains the right of a patentee to compel the purchaser of the machine to buy ink and paper at the rates charged at the time of purchase of the machine.

Judge Ray appears to hold that for a patentee to fix the price of resale of his article is to attempt to create a monopoly, the implication being that the monopoly is in something which the public has had a right to purchase with free competition, and that the monopoly which the patentee seeks to establish will take away from the public some right which it already possesses. We respectfully submit that this is incorrect. The patentee in the case at bar only seeks to control the price of an article in an industry which he himself has created, and in which the public has had no previous rights or experience of free competition in the article. The trade would never have existed but for the patentee and he is therefore not seeking to monopolize a trade which belongs to the public. The public is just as free to purchase unpatented articles as it ever was, and the monopoly which the law gives the patentee is only the inducement which it held out to the patentee to make the invention and the just and proper price paid for his contribution of it forever to public knowledge at the expiration of the monopoly.

Judge Ray's reference to *D. E. Virtue and Owatonna Fanning Mill Co. v. The Creamery Package Manufacturing Co.* is not in point in the present case, as the patentee here did not receive his full price and royalty and did reserve an interest in the article.

The defense from the copyright statute and *Bobbs-Merrill v. Straus*.

Judge Ray in his decision in the *Waltham Watch* case argues at length that as the Supreme Court in the *Bobbs-Merrill* case held that an author has no right to fix the price at which his book should be resold, it follows that an inventor is also without that right.

It is to be noted that the Supreme Court in the *Bobbs-Merrill* case expressly refused to express an opinion as to whether, under the state of facts in the present case, its decision would be the same as it was in the *Bobbs-Merrill* case.

The Court says in 28 Sup. Ct. Rep., p. 724, foot of first column, *et seq.*:

"If we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court."

"We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them.

This was recognized by Judge Lurton, who wrote a leading case on the subject in the Federal Courts (Button Fastener Case, *supra*), for he said in the subsequent case of John D. Park & Sons Co. v. Hartman, 12 L. R. A. (N.S.) 135, 82 C. C. A. 158, 153 Fed. 24:

"There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other.' "

The Supreme Court in the Bobbs-Merrill case held that the "main purpose" of the copyright statute was "to secure the right of multiplying copies of the work" (p. 726, second column, first full paragraph). The Court held, in effect, that the "sole right to vend" was incidental to this main purpose. The Court says, in the following sentence:

"True, the statute also secures, *to make this right of multiplication effectual*, the sole right to vend copies of the book, the production of the author's thought and conception" (Italics ours.)

The full text at the point referred to is as follows:

"In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privacy of contract. This conclusion is reached in view of the language of the statute, read

in the light of its main purpose to secure the right of multiplying copies of the work—a right which is the special creation of the statute. True, the statute also secures, to make this right of multiplication effectual, the sole right to vend copies of the book, the production of the author's thought and conception."

The Bobbs-Merrill case is discussed in *Henry v. Dick* (pp. 43 to 45).

The Court says (p. 45, second column):

"While there are resemblances between the right of the author to 'vend' his copyrighted production, and of the patentee to 'vend' the patented thing, the inherent difference between the production of an author, be it a book, music, or a picture, and that of an inventor, be it a machine, a process, or an article, is so manifest that the exclusive right of one to multiply and sell was declared sufficient to give him that exclusive right to his writings purposed by the Constitution. To the inventor, by Sec. 4884, Revised Statutes (U. S. Comp. Stat. 1901, p. 3381), there is granted 'the exclusive right to make, *use*, and vend the invention or discovery.' This grant, as defined in *Bloomer v. McQuewan*, 14 How. 549, 14 L. Ed. 537, 'consists altogether in the right to exclude everyone from making, *using*, or vending the thing patented.' Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes."

The Court here appears to recognize the patentee's right to qualify the right to sell the patented article.

Similarity or even identity of language between the patent and copyright statutes would not make the rights granted thereby identical, for the same language used with respect to different subjects matter may mean entirely different things, and the Court in the above quoted language, in effect, says this of the rights to vend granted by the two statutes.

The Supreme Court in the *Bobbs-Merrill* case and in *Henry v. Dick* pointed out that the copyright statute grants only two substantive rights:

1. The main right to multiply, and (2) the incidental right to vend, but it says in the above quoted portion of *Henry v. Dick* as to the Patent Statute, there is granted "exclusive right to (1) make, (2) use, and (3) vend the invention or discovery." The Court continues:

"Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use the patented thing."

These three separate rights of making, using and selling granted the inventor by the Patent Statute have always been treated as co-ordinate rights and never been treated as of different rank.

As above pointed out the Supreme Court in the *Bobbs-Merrill* case expressly recognizes the patentee's right to restrict the right to sell the patented article.

In *Henry v. Dick* (p. 25, second column, first full paragraph) it is stated:

"If the patent be for a machine, the monopoly extends to the right of making, selling and using, and these are separable and substantive rights. In *Bloomer v. McQuewan*, 14 How., 539, 547, 14 L. Ed. 532, 536, it is said that the grant is of 'the right to exclude everyone from making, using or vending the thing without the permission of the owner.' "

Again in

Adams v. Burke, 17 Wall., 453,

the Court by Mr. Justice Miller says:

"The right to manufacture the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee."

In *Bement v. National Harrow Co.*, the right to control the sale of the patented articles was expressly treated as co-ordinate to the right to manufacture. The Court says:

"These contracts directly affect, *not as a mere incident of manufacture*, the sale of the implements all over the country, and the question arising is whether the contracts which thus affect such sales are void under the Act of Congress."

In the Bath Tub decision, *Standard Sanitary Mfg. Co. v. The United States of America*, rendered in November, 1912, the Supreme Court could have decided that the patentee had no right to restrict the retail price at which his article should be sold, but the Court made no such holding.

The cases might be multiplied indefinitely.

Thus the right to sell is always treated as coordinate with the right to make and use in the patent cases, while as decided in the *Bobbs-Merrill* case, the right to sell under the copyright statute is merely incidental to the right of duplication.

The Court of Appeals for the Second Circuit in the *Bobbs-Merrill* case, 147 Fed. Rep., 15, 23, sets forth the differences between the rights of the inventor under the Patent Statute, and the rights of the author in the Copyright Statute, in the following language:

“In view of the conclusion reached, it is unnecessary to express any opinion as to the scope of such attempted restrictions in the case of patented articles. It may be said generally, however, that there is such a distinction between rights of copyright and patent rights that the decision of cases under one class would not necessarily be controlling in the other class. The protection afforded by the patent law is broader in the case of patents than in that of copyright. By a grant of copyright the owner of the work acquires the exclusive right to multiplication of copies; by the grant of a patent the patentee acquires the exclusive right to make and use the thing patented. The patent law protects the production and use of the creative conception reduced to practical shape in various forms; the copyright law protects the publication of copies in the form or substance of the particular creative conception in which it has been expressed by its author. The right secured by the copyright act is ‘the right to that arrangement of words which the author has selected to express his ideas,’ *Holmes v. Hurst, supra*.

“The statutory right to make a patented article and to prevent others from making it

is entirely distinct from the further statutory right to use, and therefore to control the use of, the thing made.

"Furthermore, the statute permits the patentee to sub-divide his rights, and the common law protects him against any infringement of any part thereof. The copyright statute provides only for the assignment of the right as a whole, and, in terms, protects against infringement by unlawful publication."

There are, as above pointed out, vital differences between the right to vend of the inventor and the right to vend of the author. These may be illustrated by comparing the situation of the author in the Bobbs-Merrill case with that of the patentee in the Bauer case.

If your Honors went to a bookstore to buy a certain book, you would know what you wanted, and the dealer could not persuade you to take another book, saying it is just as good, his motive being, for instance, that he would make a larger profit on the substituted book. On the other hand, if your Honors went to Defendant's drugstore to purchase Plaintiffs' Sanatogen, and you happened to have some confidence in Defendant, and he advised you that another food-tonic was equally as good, and especially if it were equally as good and cheaper, your Honors, or at least the average man, would be likely to take the substitute. This substitution of a cheaper article would be possible in the case of Plaintiffs' Sanatogen because the layman is not a judge of the comparative merits of medicinal or food preparations (and in general technical things to which patents relate), although it would be impossible, in the case of the author's book, because most

readers would have definite ideas about the book they wanted to buy and would be in search of a particular book and not looking for what might be called "a dose" of biography, or history or political-economy.

Defendant would be tempted to make this substitution if his actual profit were greater on the substituted article than on Sanatogen, as it might be, even though the substituted article were at a lower price. Plaintiffs would thus lose in the volume of its sales. Druggists who are inclined not to cut the price, would be tempted to cut it, and in many cases would cut it to meet Defendant's competition. This would further lessen the volume of Plaintiffs' sales. It would also tempt Plaintiff to reduce the cost of manufacture so as to sell its article at a lower price, and such reduction would be most likely to be made by using cheaper materials to manufacture Sanatogen, and less perfect methods of manufacture, such as less perfectly removing the fats, starch, &c., which prevent the easy assimilation of the albumen, and which would result in a harm to the public and in an injury to the reputation of Sanatogen, and ultimately in lessened sales.

It will thus be seen that, because of the differences in the nature of a patented article and an author's book, there are vital differences in what is involved in "vending" under the two statutes.

Further, it has always been held that an author must sell his copyright in the book as a whole, while the patentee may subdivide this power of selling in many different ways. The patentee, for instance, must often necessarily grant the right to sell his invention only in limited territories. He often

grants the right to sell his invention in a single county to one individual, and in other counties to other individuals. In this way he deals with a considerable number of individuals, each requiring but little capital, and having his attention fixed on a single county, so that that county is thoroughly worked; whereas he would otherwise have to find someone with capital enough to adequately cover the entire country and there would then be but comparatively superficial attention given to any one county. Such power to subdivide the right to vend, granted by his patent, has, as your Honors know, been repeatedly upheld. On the other hand, as stated in the above quotation from the Court of Appeals in the *Bobbs-Merrill Case*, 147 Fed. Rep., p. 23, the author can only assign his right as a whole. He could not subdivide the territory in any such way.

See, also, *Crown Co. v. Standard Brewery*, 174 Fed., 258.

That the rights under the patent statute are much broader than those under the copyright statute will be seen by the following comparisons and summary of differences.

The patent statute gives a complete monopoly of all possible ways of enjoying the invention, for it gives exclusively the three separate rights of making, using and selling, which include all possible ways of enjoying the invention. In other words, the patent statute gives a complete monopoly of the invention. The copyright statute, on the other hand, only gives the right of duplicating and the right of vending, which was held in *Bobbs-Merrill v. Straus*, to be incidental only.

"Making" under the patent statute covers

every form of the invention which performs the same function in substantially the same way, without regard to appearance. The form or appearances may be so different between the form shown in the patent and that of an infringing device as not to be at all alike to the eye, and only to be similar when analyzed by experts. The appearances may be so different, and usually are, that there is no possible charge of unfair competition. The *thought* is here protected, regardless of form, unless the invention is a very narrow one. On the other hand, the copyright statute only confers the power to control duplicating the thought in the particular form in which the author created it, or substantially that form. To constitute an infringement under the copyright statute the duplication must not only be the same thought but in substantially the form which results from casting the thought in the mould of the author's mind. In other words, the *form* of the thought is all that is protected under the copyright statute. The resemblance must be so close that, if the invention were a machine instead of the form of a thought, there would be unfair competition.

The patent statute gives the inventor absolute control over the use of the invention and the inventor can, for instance, forbid its use in any but a particular locality. No author, however, could restrict the reading of his book only to the person who purchases it, or to its being read only in a certain town.

The author can only sell his copyright as a whole and cannot subdivide it (decision of the Court of Appeals for the Second Circuit in *Bobbs-Merrill v. Straus*, 147 Fed. Rep., 15-23).

The inventor, on the other hand, can subdivide his right of selling. For instance, he can restrict the right to sell to only a certain locality.

It will, therefore, be seen that the monopoly granted to the inventor is very much more extensive than that granted to the author, and that the scope of "vending" under the patent statute cannot be measured by the scope of "vending" under the copyright statute.

In three of the following cases maintaining the right of the patentee to impose price restrictions upon the sale of the patented article, all of which decisions were rendered since *Bobbs-Merrill* case, the *Bobbs-Merrill* case is expressly held not to apply.

The Fair v. Dover Mfg. Co., 166 Fed. Rep., 117, C. C. A., 7th Circuit.

Automatic Pencil Sharpener Co. v. Goldsmith Bros., Judge Lacombe, 190 Fed. 205; C. C. S. D., N. Y.

Indiana Mfg. Co. v. Nichols & Shepher Co., 190 Fed. 579, C. C. E.D. of Michigan—Judge Dennison.

Thomas A. Edison v. Smith Mercantile Mfg. Co., 188 Fed. 925, C. C. W. D. of Michigan—Judge Dennison.

Waltham Watch Co. v. Keene, 191 Fed. Rep., p. 855—Judge Coxe.

We, therefore, submit that the *Bobbs-Merrill* decision *does not protect the Defendant*.

Reply to Decisions Relied on by Defendant in Court of Appeals.

Assuming that the Defendant will rely in this Court, at least partially upon the decisions relied on in the brief on his behalf in the Court of Appeals, we beg to submit the following discussion of such decisions in that brief:

The brief for Defendant stated there is only a single question presented by this appeal, viz.:

“When are patented articles emancipated from the patent monopoly under which they are manufactured?”

After reciting the facts in the case at bar, Counsel for Defendant called attention to the distinction in the decisions of the Supreme Court (as Counsel states it) between the “power of the patentee over his patent rights” and the “rights of the purchaser over the patented article.” He then sought to show that, by plaintiff’s sale to the jobber or to defendant, of the package in the case at bar, the power of the patentee over the package ceased, and the rights of the purchaser became absolute and included the right to sell at a retail price below that forbidden by the license notice on the package.

We shall discuss each of his citations in turn.

Bloomer v. McQuewan, 14 How., 539.

Counsel for Defendant quoted from Chief Justice Taney in *Bloomer v. McQuewan* to show the distinction, as Counsel stated it, between the “power of the patentee over his patent rights” and “the rights of the purchaser over the patented article.”

This case is discussed in *Henry v. Dick*, 224 U. S., 1, and there held to relate to an *unrestricted or unconditional sale*. In *Bloomer v. McQuewan*, Chief Justice Taney was not considering the difference between a restricted and an unrestricted sale of a patented machine, but he was seeking to interpret Section 18 of the Act of 1836, which related to the renewal or extension of a patent beyond its original term, and which provided that the "benefit of such renewal shall extend to the assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein." He was determining whether in the light of this provision one who had purchased a machine during the original term of the patent by a sale (without any conditions) had a right to use that machine free from the monopoly of an extension of the patent, and he decided that such purchaser had the said right. The language which Counsel for Defendant quoted does not, therefore, apply to the case at bar, as the sale here was a conditional sale.

The distinction which Counsel for Defendant seeks to make as "the distinction between the property rights in the materials composing a patented machine and the right to use for the purpose and in the manner pointed out by the patent" is stated by the Supreme Court in *Henry v. Dick*, first full paragraph page 23.

Applying the distinction specifically to the case at bar:—when Defendant purchased the package of Sanatogen from Plaintiff or from the jobbers, he acquired the title to the physical materials therein, and he could, for instance, have used the contents of the package (which is in the form of dry, powdered material) as ingredients for making explosives, or as a powder for polishing silver,

or he could have personally eaten it as a food medicine, as was intended by its manufacturers, or he could have sold it at any retail price from \$1.00 up. These rights went to him with the title to the physical materials of which the ingredients of the package were composed, but no portion of the patent monopoly went with the package.

In buying the package he bought immunity from the monopoly, except in so far as the Plaintiff retained that monopoly over the article with notice to the Defendant when he purchased the package. The notice on the package, that a sale of the package at retail at a price lower than One Dollar would be an infringement of the patent, was notice that to such extent the package was not released from the monopoly. In other words, a purchase of the package under these conditions was not a purchase of complete immunity from the monopoly, the right to exclude all others from selling the package at a price lower than One Dollar being still reserved by and being in the Plaintiff.

Adams v. Burke, 17 Wall., 453.

Counsel for Defendant next referred to *Adams v. Burke, 17 Wall., 453*. This case is also stated in *Henry v. Dick* to relate to an *unconditional* sale (page 18). In this case coffin-lids were bought of grantees of all the rights in a certain specified territory, and were used outside of that territory. The plea recited that they were "sold within said circle by said Lockhart and Seelye *without condition or restriction*." (Italics ours.)

The Court held, in effect, that having been sold once *without restriction*, they were free from the monopoly and could be used anywhere in the

United States without reckoning with the local grantee. The Court in using the language quoted in Defendant's brief did not, therefore, have in mind the distinction in the case at bar between a restricted and an unrestricted sale.

Counsel for Defendant layed special emphasis "on the doctrine that when the patentee has 'received all the royalty or consideration which he claims for the use of his invention, . . . it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.'" Of course, a case in which a patentee has received "all the royalty or consideration" which he claims is a case of an unrestricted sale. In the present case, however, the Plaintiffs have not received all the royalty or consideration which they claim as we have before shown.

Defendant's brief was permeated throughout by the mistaken assumption that Plaintiff has "received all the royalty or consideration which he claims for the use of his invention" when defendant has paid the wholesale price on the article.

Chaffee v. Boston Belting Company, 22 How., 217.

This case was next referred to by Counsel for Defendant. Counsel quoted from page 223 language relating to an unrestricted sale as applying to a restricted sale. It was a writ of error in an action for trespass on the case under an extension of the Goodyear Rubber Patent to enjoin defendants, who, having begun the use of the invention during the original term of the patent, claimed the right to continue under the extension.

The Court held that as there was no proof the defendants had ever bought the right from the patentee under the original term, but were naked infringers, they had no right under the extended term.

The language quoted is therefore *dicta*. It also was written with reference solely to an unconditional or unrestricted sale.

Morgan Envelope Company v. Albany Paper Company, 152 U. S., 425.

This was the next case considered by Counsel for Defendant. Again Counsel quoted from page 433 language used in view of an unrestricted sale as stating the law controlling restricted sales. This case is referred to in *Henry v. Dick* as the "Paper Roll Case," and is discussed at the foot of page 26. Mr. Justice Lurton says of this case:

"But it has no application to the question here presented. That is manifest when the case is attentively examined. First, because here the ink and other supplies used in the operation of the Complainant's rotary mimeograph patent were not made elements of the patent, as in the Paper Roll Case; and, second, the toilet paper fixture in the Paper Roll Case was not sold with the license restriction; &c. . . . One who bought subject to no such restrictions acquired the right to use the fixture with any paper."

Therefore the language quoted by Counsel for Defendant was used with reference to an *unrestricted* sale, and has no bearing on the present case. Moreover, such language contains the qualification "that the patentee having once received

his royalty," which is a condition that, as we have shown, does not exist in the present case. For, not only was the sale restricted in the present case, but the Plaintiff cannot be said to have received its royalty in the full sense, as we have pointed out in connection with the discussion of *Adams v. Burke*.

Keeler v. Standard Folding Bed Company,
157 U. S., 659.

This case was quoted extensively by Counsel for Defendant who again applied language use in reference to an unrestricted sale to the present case in which the sale was restricted. It is one of those cases referred to in *Henry v. Dick* by Mr. Justice Lurton, page 368, first column, in the following language:

"In the cases cited above, as well as the leading case of *Bloomer v. McQuewan*, 14 How., 539, 14 L. Ed., 532, the statement that a purchaser of a patented machine has an unlimited right to use it for all the purposes of the invention, so long as the identity of the machine is preserved, was made of one who bought unconditionally; that is, subject to no specified limitation upon his right of use."

This decision, therefore, has no bearing on the case at bar, and the language quoted had no reference to the distinction in the present case.

In the *Folding Bed* case the assignee of the monopoly for the State of Michigan sold folding beds by an *unconditional* sale to one who sold beds in Massachusetts. The assignee of the State of Massachusetts sought to enjoin such sale, but it was held that, as the sale was completed in Michigan, and as it was unconditional, the bed-

steads had passed outside the monopoly and there was no violation of rights in Massachusetts. The quotation in Defendant's brief did not apply to the present case, because it referred to one who sold "for a satisfactory compensation," whereas Plaintiff, in the case at bar, has not received the compensation required, as part of that compensation was the condition that the purchaser should not cut the retail price on the patented article—a condition which has a money value to the Plaintiff.

Counsel for Defendant also cited the Folding Bed Case as an authority for the condition that Plaintiff should have sued upon the contract and not upon the tort. The entire language of the decision bearing on this point is the following:

"Whether the patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws."

To this we reply: First, as the case there being decided was one of unrestricted sale and there was no contract, this reference to contract rights is mere *dicta*. Second, the Supreme Court in the later case of *Henry v. Dick* decided (fourth paragraph of the syllabus) that the patentee may elect to sue for an infringement of the patent, although he might have sued on the broken contract or brought a Bill to declare a forfeiture of the licensee's rights for breach of the implied covenant. The Court, in the *Henry v. Dick* case, says, page 13:

"We come, then, to the question whether a suit for infringement is here presented.

"That the license agreement constitutes a contract not to use the machine in a prohibited manner is plain. That defendants might be sued upon the broken contract, or for its enforcement, or for the forfeiture of the license, is likewise plain. But if, by the use of the machine in a prohibited way, Miss Skou infringed the patent, then she is also liable to an action under the patent laws for infringement."

Third, there is here no question of "special contract" intended to protect the patentee in the use of a thing which has once become freed from his patent monopoly. On the contrary, Plaintiffs' package is never freed from the patent monopoly, so far as any right of the purchaser to sell it at a retail price below One Dollar. Any sale in violation of that condition is an act of infringement, the licensee becoming, so far as such prohibited sale is concerned, a stranger to the patent monopoly.

Bement v. National Harrow Co. & Co., 186 U. S., 70.

This decision was quoted in *Henry v. Dick* (page 29) as an authority for the patentee's right to restrict the price at which the article shall be sold.

Counsel for Defendant contended that the Supreme Court in the *Bobbs-Merrill Case*, 210 U. S., 339, held this case does not bear on a patentee's right to control the resale price. The entire discussion of this case in the *Bobbs-Merrill Case* is in the following paragraph:

“In *E. Bement & Sons v. National Harrow Company, supra*, the suit was between the owners of the letters patent as licensor and licensees seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the state court, and, of course, does not dispose of the questions to be decided in this case.”

The Bobbs-Merrill Case was a copyright and not a patent case.

Whatever the Court may have held concerning the Bement case in the Bobbs-Merrill case, it certainly held in *Henry v. Dick* that the Bement case was an authority for the right of a patentee to restrict the price at which his article should be sold.

That Mr. Justice Peckham, in the Bement Case, was not making the distinction which the brief for Defendant alleged will be seen by the following full quotation, which includes the preamble to the partial statement quoted in Defendant's brief:

“The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the as-

signee shall charge a certain amount for such article."

It will be seen that this statement in its entirety is no authority for the contention that the sale of an article under a license restriction as to the resale price frees that article from the monopoly.

In the Bement case the Supreme Court beyond question recognized that the patentee's monopoly included the right to fix the price at which his article should be sold as a broad proposition.

So far as the evidence went, the sale in *Cortelyou v. Johnson* was to be treated as an *unrestricted sale*. It was so held in *Henry v. Dick*, page 42.

Here again, therefore, is no authority for Defendant's contention that a sale of a patented article under a license restriction borne by that article, and known to the purchaser, frees the article from the restrictions. Counsel again confuses the property right in the materials of which the article is composed with the right to use or sell that article in violation of a reserved portion of the monopoly.

Patterson v. Kentucky, 97 U. S., 501.

This case is discussed in *Henry v. Dick*, page 28, and is referred to in *Bement v. National Harrow Company*, and also in *Heaton-Peninsula Company v. Eureka Specialty Company*, in the former of which the right of the patentee to impose conditions on the sale of his article, and in the latter of which upon the use of his article were sustained, and were distinguished from *Patterson v. Kentucky*.

We recognize and have stated in connection with the case of *Adams v. Burke*, the distinction

between the right of property in the physical substance of a machine or other embodiment of the invention, and the right in the monopoly granted by the patent. The Defendant's right in the physical materials of the packages of Sanatogen which he bought is unquestioned. He has, however, no right to sue those materials in violation of the reserved portion of monopoly, namely, to sell the package at a retail price lower than One Dollar.

Henry v. Dick, 224 U. S. 1.

Counsel for Defendant first sought to distinguish from this case by setting up a difference between the grant of the right to use, and that of the right to vend, and he quoted Mr. Justice Clifford in *Mitchell v. Hawley*, who directed attention to what he termed "the well grounded distinction between the grant of the right to make and vend the patented machine and the grant of the right to use it," which he said "was first satisfactorily pointed out by the late Chief Justice Taney with his accustomed clearness and precision."

Chief Justice Taney's decision, referred to by Mr. Justice Clifford, was the case of *Bloomer v. McQuewan*, which we have above discussed.

The case of *Bloomer v. McQuewan* was one of a patent whose original term had been twice extended, the second extension having been assigned to one Wilson. Bloomer purchased from Wilson the exclusive right to make, use and sell the patented machines in the Pittsburgh district. McQuewan, during the term of the first extension, had purchased of the owner of such extension the right to construct and use a certain number of machines in the Pittsburgh district, there being no

restrictions whatever upon him. Under the authority of *Wilson v. Rousseau* it was held that McQuewan's machines having been built without any restrictions as to the time of use, they had passed without the monopoly during the first extension and were, therefore, free from monopoly of the second extension. Chief Justice Taney was seeking to interpret the clause of the 18th Section of the Act of 1836, reading as follows:

"And the benefit of such renewal shall extend to the assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein."

Chief Justice Taney uses the following language:

"Now, the act of 1836, in express terms, gives the benefit of the extension authorized by that law to the assignees and grantees of the right to use the thing patented to the extent of their respective interests therein. And under this provision it was decided in the case of *Wilson v. Rousseau*, 4 How., 688 (4 Am. & Eng. 436), that the party who had purchased and was using this planing machine during the original term for which the patent was granted, had a right to continue the use during the extension; and the distinction is there taken between the grant of the right to make and vend the machine, and the grant of the right to use it.

"The distinction is a plain one. The franchise which the patent grants consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the fran-

chise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from and exercised under the protection of the United States; and the interest he acquires necessarily terminates at the time limited for its continuance by the law which created it. The patentee cannot sell it for a longer time; and the purchaser buys with reference to that period, the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.

“But the purchaser of the implement or machine, for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. And if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State, and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated. * * *

“It is doubtless upon these principles that the act of 1836 draws the distinction between the assignee of a share in the monopoly, and the purchase of one or more machines, to be

used in the ordinary pursuits of business; and that distinction is clearly pointed out and maintained in the case of *Wilson v. Rousseau*, before referred to."

From the foregoing it is clear that the distinction Chief Justice Taney was drawing was between an assignee of a portion of the monopoly and one who had merely purchased a machine which was a specimen of the patented invention. He was pointing out that the quoted clause of the Statute did not preserve, under the extension of the patent, the rights of assignees of the original patent (for the object of the law was to grant the extension to the original inventor, because he had not been properly rewarded) but that the quoted section only sought to preserve to purchasers of the patented machines the right to use those machines during the extension. The distinction he was seeking to make was, therefore between one who owned a portion of the patented monopoly, and one who merely owned one of the machines embodying the patented invention. He was not drawing a distinction between that portion of the monopoly which consisted of the right to exclude all others from using the patented machines, and that portion of the monopoly which consisted of the right to exclude all others from selling the patented machines. This is made clearer by the following quotation from *Robinson on Patents*, Vol. 2, Sec. 763, p. 521:

"* * * On the other hand, the transfer of an exclusive right to make *and* use *and* sell, or, what is of the same effect as to all classes of inventions except arts or processes, of the exclusive right to make and sell the invention, or of an undivided interest in such exclusive right, vests the entire invention and

consequently the monopoly also in the alienee, either alone or jointly with the alienor, and hence is an assignment."

Mr. Robinson here shows that the exclusive right to make and sell is the same, in effect, "as to all classes of inventions except arts or processes" as the exclusive right to make *and* use *and* sell. As Chief Justice Taney was speaking of a machine, he might just as well have said "make and use and sell" as to have said "make and sell."

The quotation which Counsel for Defendant took from Mr. Justice Lurton in *Henry v. Dick*, in an attempt by parallel columns to put Counsel for Plaintiff in opposition to Mr. Justice Lurton, is simply the quotation which Mr. Justice Lurton was making from Mr. Justice Clifford when the former was discussing the case of *Mitchell v. Hawley* (19), and Mr. Justice Lurton makes absolutely no distinction of any sort between the patent's power over his right to limit the use of his invention, and his power over the right to limit the sale of specimens of his patented invention.

The second distinction which Counsel for Defendant sought to make between *Henry v. Dick* and the present case was his allegation that Dick received only part of his compensation through the sale of the article, he expecting to receive the balance through profit on the supplies for the copying machine, which Dick required the purchaser of the machine to purchase of him, but that plaintiffs received its full compensation from the jobber and has no further interest in the article.

The citations of Defendant from the decisions of *Adams v. Burke*, *Morgan Envelope Company*

v. Albany Paper Company, and *Keeler v. Standard Folding Bed Company*, were, as we have shown above in this brief, from cases in all of which the patented article passed by an unrestricted sale. These citations, therefore, have no bearing on the present case and do not answer Plaintiffs' contentions.

Summary.

We respectfully submit: That Plaintiffs' patent grants them the right to exclude all others from any making, using or selling of the patented invention.

That, in *Henry vs. Dick*, the right was sustained of a patentee to enjoin others from violation of conditions as to use attached to a sale.

That the patentee's control over selling is co-ordinate and co-extensive with that over using his invention.

That the Plaintiffs did not receive the full consideration for the patented article when they received the purchase money, and that they have a continuing interest in the article.

That the patentee's control over the price of his patented article is reasonable, proper and consistent with sound public policy.

That the Supreme Court has before recognized the patentee's control over the re-sale price of his patented article, and

That such control comes within the principle decided in *Henry vs. Dick*.

We therefore respectfully submit that the answer to the question certified in this case should be in the affirmative.

Respectfully submitted,

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March, 1913.

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JAMES H. MCKINNEY,

CLERK.

IN THE
Supreme Court of the United States

OCTOBER TERM, 1912.

No. 951.

BAUER & CIE AND THE BAUER CHEMICAL COMPANY

v.s.

JAMES O'DONNELL.

ON A CERTIFICATE FROM THE COURT OF APPEALS OF THE
DISTRICT OF COLUMBIA.

BRIEF FOR JAMES O'DONNELL.

FRANK J. HOGAN,
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A.

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I.

PRELIMINARY.

Has a patentee as such the right to dictate the price at which a full-value purchaser of a specimen of the patented article shall sell it? This is the principal question presented by this certificate.

For convenience of statement, we shall hereinafter refer to Bauer & Cie and The Bauer Chemical Company as the plaintiffs, and to James O'Donnell as the defendant. In the court below the former were the appellants and the latter the appellee (Certificate 1).

II.

THE QUESTION CERTIFIED.

The question involved, and the facts upon which it is based, are concisely certified by the Court of Appeals as follows (Certificate 1-2):

The Court of Appeals of the District of Columbia certifies that the record in the above entitled cause, now pending in such court upon appeal from the Supreme Court of the District of Columbia, discloses the following: Bauer & Cie, of Berlin, Germany, co-partners, being the assignees of letters patent of the United States, dated April 5, 1898, No. 601,995, covering a certain water soluble albumenoid known as "Sanatogen," and the process of manufacturing the same, about July, 1907, entered into an agreement with F. W. Hehmeyer, doing business in the City of New York under the trade name of The Bauer Chemical Company, whereby Hehmeyer became and has since been the sole agent and licensee for the sale of said product in the United States, the agreement contemplating that Hehmeyer should have power to fix the price of sale to wholesalers or distributors and to retailers and to the public. The agreement further contemplated that said product should be furnished Hehmeyer at manufacturing cost, the net profits obtained by him to be shared equally by the parties to the agreement. Since April, 1910, this product has been uniformly sold and supplied to the trade and to the public by the appellants and their licensees in sealed packages bearing the name "Sanatogen," the words "Patented in U. S. A., No. 601,995," and the following:

"NOTICE TO THE RETAILER.

"This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar (\$1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.

"A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.

"THE BAUER CHEMICAL COMPANY."

The appellee is the proprietor of a retail drug store at 904 F Street, N. W., in this city. He purchased of the Bauer Chemical Company for his retail trade original packages of said Sanatogen bearing the aforesaid notice. These packages he sold at retail at less than one dollar and, persisting in such sales, appellants in March, 1911, severed relations with him. Thereupon appellee, without the license or consent of the appellants, purchased from jobbers within the District of Columbia, said jobbers having purchased from appellants, original packages of said product bearing the aforesaid notice, sold said packages at retail at less than the price fixed in said notice, and avers that he will continue such sales.

The Court of Appeals of the District of Columbia further certifies that the following question of law arises upon the record, that its decision is necessary to the proper disposition of the cause, and, to the end that a correct result may be reached, desires the instruction of the Supreme Court of the United States upon that question, to wit:

Did the acts of the appellee, in retailing at less than the price fixed in said notice, original packages of "Sanatogen," purchased of jobbers as aforesaid, constitute infringement of appellants' patent?

The facts, then, are that the plaintiffs own letters patent on a certain product called "Sanatogen," a powder preparation for internal human consumption; they manufacture and sell this product; they sold a quantity of it to jobbers, who paid the plaintiffs the full price demanded therefor; the jobbers sold the product to the defendant, a retail druggist, and he paid the jobbers the full price demanded therefor; each container of the product so sold by the plaintiffs to the jobbers and by the jobbers to the defendant had pasted on it the label giving the "Notice to the Retailer"; the defendant resold the product to the public at a price less than that named in the label, and is sued in this case, not for breach of contract, but for patent infringement.

The question, then, is whether or not a patentee as such has the right to dictate the price at which a full-value purchaser of a specimen of the patented article shall sell it.

III.

THE PATENT MONOPOLY.

Prior to the year 1896 there was no apparent difficulty in answering the question involved in this case. The lawyer consulted at that time on the subject felt quite safe—and justifiably so—in advising his client, in reliance upon repeated decisions of this Court, that when a patentee, or his assignee, had manufactured, and sold for a satisfactory price, the article protected by the patent, that article was thereafter "without the patent monopoly," and it was beyond the patentee's power to dictate its resale price.

At the time of writing this brief, we have not before us a copy of the plaintiff's brief in this Court, but we assume that they will present here the same points and authorities upon which they relied in their brief in the Court of Appeals, and we shall therefore write accordingly.

It will be seen that, as above stated, the case involves the question of the right of a patentee to control, *by means of the patent statute*, the price at which the patented article shall be resold to the consuming public after the patentee has manufactured it and sold it for his price, and after the defendant has purchased it from the patentee's vendee, paying that vendee his price for the article.

Ever since the decision of the Circuit Court of Appeals in *Heaton Peninsular Button Fastener Company v. Eureka Specialty Company*, 77 Fed., 288, in 1896, patentees and patent attorneys have been exhausting their ingenuity to devise means by which a patentee may sell a specimen of his patented article, and at the same time keep it. The *Button Fastener Case* related exclusively to the use of a patented machine. It had no relation whatever to the question of the resale price of a patented article after it had been sold by the patentee and after that patentee had obtained for the article all of the royalty or consideration which he claimed for it, or ever expected to get out of it. Later herein we shall see that in the *Button Fastener Case*, and in the recent case of *Dick v. Henry*, commonly known as the mimeograph case, in parting with the patented machine, the patentees did not obtain all the royalty or consideration which they claimed, and to which they were entitled, out of their inventions, but depended entirely for their profit on the restricted use of the patented machine. Such is not the case at bar.

POINTS AND AUTHORITIES.

It is unnecessary to discuss the decisions of the various inferior federal courts. To do this would serve no purpose, because (1) the plaintiffs rely upon and insist that this case is settled by a controlling decision of this Court; (2) the defendant also relies upon

and insists that the question involved in this case is settled by a controlling decision of this Court; and (3) this Court in the case of *Andrews v. Hovey*, 124 U. S., 694, in positive language, proclaims itself to be the only tribunal in which a question regarding the patent statutes can be "finally settled so as to establish the law for like cases." In that case the Court said:

"A question arising in regard to the construction of a statute of the United States concerning patents for inventions can not be regarded as judicially settled when it has not been judicially settled by the highest judicial authority which can pass upon the question.
* * * No question regarding patents in any such case, reviewable by this Court, can be regarded as finally settled, so as to establish the law for like cases, unless it has been determined by this Court."

What then has this Court said respecting the extent and the termination of the rights of a patentee over the physical article which embodies the idea of his invention?

As far back as 1852, this Court, in *Bloomer v. McQueenan*, 14 How., 539, speaking by Chief Justice Taney, said:

"The franchise which the patent grants consists altogether in the right to exclude every one from making, using or vending the thing patented without the permission of the patentee. This is all he obtains by the patent. And when he sells the exclusive privilege of making or vending it, for use in a particular place, the purchaser buys a portion of the franchise which the patent conferred. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States, and the interest he acquires necessarily terminates at the time limited, for its continuance by the law which created it. The patentee can not sell it for a longer time. * * *

"But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on a different ground. In using it, he exercises no rights created by the Act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the Act of Congress and if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State, and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated."

We call attention to the clear distinction made in the two paragraphs of the above quotation, the first referring to the power of the patentee over his *patent rights*, and the second referring to the power of the patentee and the rights of a purchaser over the *patented article*. This distinction we shall have occasion again to lay stress on.

The case of *Adams v. Burke*, 17 Wall., 453, was decided in 1873. The plaintiff in that case owned a patent on a coffin-lid. He assigned the whole right for a district comprised by a circle, whose radius was ten miles, having the city of Boston for its center; outside of that district, the plaintiff owned the patent, having neither sold nor assigned his rights in it. The defendant bought a quantity of the patented lids in Boston, took them outside the ten-mile circle and used them. The plaintiff sued for patent infringement. The court, in an opinion by *Mr. Justice Miller*, after referring to the principles of earlier cases, said:

"The true ground on which these decisions rest is, that a sale by a person who has the full right to make, sell and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time.

"The right to manufacture, the right to sell and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.

"But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. *Bloomer v. McQuewan*, 14 How., 549; *Mitchell v. Hawley* (*ante*, 322). That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

We call especial attention to the emphasis laid by the court on the doctrine that when the patentee has "*received all the royalty or consideration which he claims for the use of his invention* * * * it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees." One of the points on which turned the recent decision in *Dick v. Henry*, the case relied upon by the plaintiffs, was that the patentee had not by the sale received *all* the royalty or consideration which he claimed for the use of his invention in the particular machine involved in that case; in *Dick v. Henry*, the patentee had received for the mimeograph only the bare cost of its manufacture; and he depended for his royalty or consideration upon the profits from sales of ink and paper for use with that machine. In the case at bar, there is no such claim.

In the sales by the plaintiffs, the patentee "received *all* the royalty or consideration" they claimed or ever expected or reserved any right to obtain for the articles which ultimately became the property of the defendant. The plaintiffs made a sale outright at a profitable price and parted with every claim of every character over those particular patented articles. The moment plaintiffs sold any number of packages of Sanatogen to the jobbers from whom defendant bought—or to defendant directly—they parted with every claim in those packages; they retained no future interest in nor any right to any pecuniary return from the use or *resale* of those particular articles. In *Dick v. Henry*, however, the patentee when he parted with the possession of the mimeograph, did not get the price—the consideration—he asked for it, and hence it never was freed from the patent monopoly. What was the return to the patentee? What was the "royalty or consideration which he claims for the use of his invention"? It was the initial manufacturer's cost of the mimeograph, plus a continuing return in the shape of profits made on the sale of ink and paper used with the mimeograph. Dick said to a purchaser, "You can have the *use* of my mimeograph upon payment to me of the actual cost of that machine and a royalty, that royalty to be the profit which I will make on the ink you will use in that machine. On these terms I shall give you with the mimeograph a license under the patent to use that mimeograph only with ink and paper purchased from me." Obviously, the initial sale of the machine at cost was not what the patentee demanded under his patent—not, in the language of this Court, "*all* the royalty or consideration which he claims for the use of his invention,"—and, as decided repeatedly by this Court, it was not until he received the price he demanded that the machine was relieved from the patent monopoly. We reit-

erate, such is not the case at bar. We shall deal again with this point when we come to the not difficult task of distinguishing the case at bar from *Dick v. Henry*.

In the case of *Chaffee v. Boston Belting Company*, 22 How., 217, decided in 1859, Mr. Justice Clifford, delivering the unanimous opinion of the Court, said (p. 223):

“When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. According to the decision in this Court in the cases before mentioned, it then passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. By a valid sale and purchase, the patented machine becomes the private individual property of the purchaser, and is no longer protected by the laws of the United States, but by the laws of the State in which it is situated. Hence, it is obvious, that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair or improve upon it as he pleases, in the same manner as if dealing in property of any other kind.”

In *Morgan Envelope Company v. Albany Paper Company*, 152 U. S., 425, decided 1894, this Court unanimously held that “when a patentee has once received his royalty, he can not treat the subsequent seller or user as an infringer” (syllabus). Referring to patented fixtures, the sale of which by the defendants the patentee sought to restrain, Mr. Justice Brown, speaking for the Court, said (p. 433):

“So far as fixtures sold by defendants, which had been originally manufactured and sold by the patentee to other parties, are concerned, it is evident that, by

such original sale by the patentee, they passed out of the limits of the monopoly, and might be used or sold by any one who had purchased them from the original vendees. **The patentee having once received his royalty upon such device, he cannot treat the subsequent seller or user as an infringer.**"

One year later, in 1895, came the illuminating decision in *Keeler v. Standard Folding Bed Company*, 157 U. S., 659. In that case the patentee had assigned his *patent rights* to various assignees for different specified territories. The defendant purchased from the territorial assignee in Michigan a quantity of the patented articles for the purpose of selling them in Massachusetts, for which State the plaintiffs were the exclusive assignees of the patentee. Plaintiffs obtained an injunction against the defendant who had purchased the patented articles from the Michigan assignee, and on appeal to this Court the decree granting that injunction was reversed. In the opinion, by *Mr. Justice Shiras*, this Court, after quoting section 4884 of the Revised Statutes, which specifies the grant that every patent shall contain, and section 4898 R. S., conferring on patentees the right to assign, in whole or in part, the franchise of the patent, said:

"Where the patentee has not parted, by assignment, with any of his original rights, but chooses himself to make and vend a patented article of manufacture, it is obvious that a purchaser can use the article in any part of the United States, and, unless restrained by contract with the patentee, can sell or dispose of the same. It has passed outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. As was said by *Mr. Justice Clifford*, in *Goodyear v. Beverly Rubber Co.* (1 Cliff., 348, 354): 'Having manufactured the material and sold it for a satisfactory compensation, whether as material or in the form of a manufactured article, the patentee,

so far as that quantity of the product of his invention is concerned, has enjoyed all the rights secured to him by his letters patent, and the manufactured article, and the material of which it is composed, go to the purchaser for a valuable consideration, discharged of all the rights of the patentee previously attached to it, or impressed upon it, by the act of Congress under which the patent was granted.'

"Suppose, however, the patentee has exercised his statutory right of assigning by conveying to another an exclusive right under the patent to a specified part of the United States, what are the rights of a purchaser of patented articles from the patentee himself within the territory reserved to him? Does he thereby obtain an absolute property in the article, so that he can use and vend it in all parts of the United States, or, if he take the article into the assigned territory, must he again pay for the privilege of using, and selling it? If, as is often the case, the patentee has divided the territory of the United States into twenty or more 'specified parts,' must a person who has bought and paid for the patented article in one part, from a vendor having an exclusive right to make and vend therein, on removing from one part of the country to another, pay to the local assignee for the privilege of using and selling his property, or else be subjected to an action for damages as a wrongdoer? And is there any solid distinction to be made, in such a case, between the right to use and the right to sell? *Can the owner of the patented article hold and deal with it the same as in case of any other description of property belonging to him, and, on his death, does it pass, with the rest of his personal estate, to his legal representatives, and thus, as a part of the assets to be administered, become liable to be sold?*

"These are questions which, although already in effect answered by this court in more cases than one, are now to be considered in the state of facts disclosed in this record. * * *

The Court reviewed its earlier decision in the case of *Adams v. Burke*, and, referring to the language of Mr. Justice Miller in that case to the effect that the defendant, having purchased the patented coffins, acquired the right to use them, freed from any claim of the patentee, said (p. 664):

"It is obvious that necessarily the use made by Burke of these coffins involved a sale in every case. He did not put them to his personal use, unless we are permitted to suppose that he was himself buried in each one of the coffins. He bought the coffins for the purpose of selling them to others, and the legal significance of the decision upholding his defense is that a person who buys patented articles from a person who has a right to sell, though within a restricted territory, has a right to use and sell such articles in all and any part of the United States; that when the royalty has once been paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it as an essential incident of such ownership.

"That this was the meaning of this decision, not only appears from the language used, and from the necessary legal effect of the conclusion reached as between the parties, but from the dissenting opinion of Justice Bradley, whose reasoning went wholly upon the assumption that such was its meaning."

Having summarized all of its earlier decisions, the Court, in this case of *Keeler v. Standard Folding Bed Company*, enunciated its doctrine on the question now at bar in the following explicit terms (p. 666):

"This brief history of the cases shows that in *Wilson v. Rousseau*, 4 How., 646, and cases following it, it was held that, as between the owner of a patent on the one side, and a purchaser of an article made under

the patent on the other, *the payment of a royalty once*, or, what is the same thing, the purchase of the article from one authorized by the patentee to sell it, *emancipates such article from any further subjection to the patent throughout the entire life of the patent*, even if the latter should be by law subsequently extended beyond the term existing at the time of the sale, and that in respect of *the time* of enjoyment, by those decisions the right of the purchaser, his assigns or legal representatives, is clearly established to be *entirely free* from any further claim of the patentee or any assignee; that in *Adams v. Burke*, 17 Wall., 453, it was held that, as respects *the place* of enjoyment, and as between the purchaser of patented articles in one specified part of the territory and the assignee of the patent of another part, the right once legitimately acquired to hold, use, and sell will protect such purchaser from any further subjection to the monopoly; that in *Hobbie v. Jennison*, 149 U. S., 355, it was held that, as between assignees of different parts of the territory, it is competent for one to sell the patented articles to persons who intend, with the knowledge of the vendor, to take them for use into the territory of the other.

"Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws.*

"The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration."

At this point we invite attention to the following statement in plaintiffs' brief below in the instant case: "This is not an action upon a contract, but a bill in equity to restrain a tort, consisting of a trespass in entering upon the reserved portion of the patentee's monopoly" (p. 18). Again: "In the present case the plaintiffs have chosen to waive the contract and sue upon the tort" (p. 14).

Next in order is the case of *Bement v. National Harrow Company*, 186 U. S., 70, the most misunderstood and misconstrued case in the books, a case cited by the members of the patent bar, who are seeking to uphold the extra-statutory claims of patentees, as sustaining every contention which it did not decide, and which this Court in a later case expressly said it did not decide. Even the extraordinarily explicit refutation, in *Bobbs-Merrill v. Straus*, 210 U. S., 339, of the claim that it had in *Bement v. Harrow Company* held that a patentee had the right by restrictive notice to control the *resale* price of an article manufactured by him, seems to have had no effect whatever, for we find the *Bement* case cited below in the brief of plaintiffs' counsel in the instant case, as an authority for the contention for which *Mr. Justice Day* in the *Bobbs-Merrill* case, said it was not an authority. The *Bement* case involved restrictions upon the assignment of a portion of the patentee's *patent rights*, and it had no relation whatever to the question of a patentee's right to restrict the sale of the *patented article* after it had been manufactured and made an article of commerce by one sale. The distinction between the right of an owner of a patented article and the right of an owner of a patent is a distinction which the Court sought in *Bement v. Harrow Company* to make clear, and the doctrine of that case, so far as applicable here, may well be considered as disposed of by five lines in the opinion of *Mr. Justice Peckham* (p. 93):

"The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

In *Cortelyou v. Johnson*, 207 U. S., 196, a patent case not decided on the merits because of failure of proof that the defendant had knowledge of the restrictive notice, the Court again sought to make clear its distinction between patent rights and patented articles. Here is what is said:

"While in E. Bement and Sons v. National Harrow Co., 186 U. S., 70, this court held in respect of PATENT RIGHTS [observe, not "patented articles"] that, with few exceptions, any conditions which are not in their very nature illegal with regard to this kind of property [viz., patent rights] imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article [note the distinction between the "right" and the "article"] will be upheld by the court, it is unnecessary to consider how far a stipulation in a contract between the owner of a patent right [not article] and the purchaser from him of the machine manufactured under that right, that it should be used only in a certain way, will sustain an action in favor of the vendor against the purchaser in case of a breach of that stipulation."

This distinction between the extent of a patentee's property in and authority over the patent (*i. e.*, patent rights) and the article manufactured thereunder (*i. e.*, specimen of the patented article) is intensified by the opinion of the Court, speaking by *Mr. Justice Harlan*, in *Patterson v. Kentucky*, 97 U. S., 501:

"The right of property in the physical substance, which is the fruit of the discovery, is altogether distinct from the right in the discovery itself, just as the property in the instruments or plates by which copies of a map are multiplied is distinct from the copyright of the map itself."

In *Bobbs-Merrill v. Straus*, 210 U. S., 339, the contention having been pressed on the Court that it had by the *Bement* case upheld the right of a patentee to restrict and dictate the resale price of a patented article after he had sold it for a price satisfactory to him, the Court said (p. 345):

"In *Bement v. National Harrow Co.*, 186 U. S., 70, the suit was between the owners of the letters patent as licensor and licensees, seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the State court, and, of course, does not dispose of the questions to be decided in this case."

Bobbs-Merrill v. Straus, 210 U. S., 339, was decided June 10, 1908. It is indistinguishable in principle from the case at bar. Upon its doctrine we confidently rely. It involved the construction of a clause in the copyright statute identical in effect with the clause in the patent statute which plaintiffs here invoke.

We purpose (1) to set forth the facts in this case, (2) to examine side by side that provision of the copyright statute which was before the Court and the analogous provision of the patent statute, and (3) to set forth the decision, which was unanimous.

(1)

The plaintiff, the Bobbs-Merrill Company, brought suit against the defendants, Isidor Straus and Nathan Straus, partners, trading as R. H. Macy and Company, in the Circuit Court of the United States in New York, to restrain the sale of a copyrighted novel, entitled "The Castaway," at retail at less than one dollar for each copy. The suit was distinctly one for infringement, and, as in the case at bar, all question of contract restriction was abandoned. The plaintiff was the owner of the copyright on "The Castaway," obtained May 18, 1904, in conformity with the copyright statutes of the United States. Printed immediately below the copyright notice on the page in the book following the title page was inserted the following notice:

"The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.

"The Bobbs-Merrill Company."

The defendants "purchased copies of the book for the purpose of selling the same at retail." Ninety per cent of such copies were purchased by them at wholesale at a price below the retail price, and ten per cent of the books purchased by them were purchased at retail, and the full price paid therefor. It was stipulated that—

"Defendants, at the time of their purchase of copies of the book, knew that it was a copyrighted book and were familiar with the terms of the notice printed in each copy thereof, as above set forth, and knew that this notice was printed in every copy of the book purchased by them.

"The wholesale dealers, from whom defendants purchased copies of the book, obtained the same either directly from the complainant or from other wholesale

dealers at a discount from the net retail price, and at the time of their purchase knew that the book was a copyrighted book and were familiar with the terms of the notice printed in each copy thereof, as described above, and such knowledge was in all wholesale dealers through whom the books passed from the complainants to defendants. But the wholesale dealers were under no agreement or obligation to enforce the observance of the terms of the notice by retail dealers or to restrict their sales to retail dealers who would agree to observe the terms stated in the notice.

"The defendants have sold copies of the book at retail at the uniform price of eighty-nine cents a copy, and are still selling, exposing for sale and offering copies of the book at retail at the price of eighty-nine cents per copy, without the consent of the complainant."

Here, then, we have facts indistinguishable in effect from those presented by the instant case. We now proceed to an examination of the laws under which "The Castaway" was copyrighted and under which "Sanatogen" was patented.

(2)

The power of Congress to grant letters patent to inventors and copyrights to authors is found in the same section of the Constitution. The framers did not have in mind the granting of any more extensive right to one than to the other. The nature of the products of the creative genius of our inventors and authors necessarily requires some difference in the character of the rights conferred. Section 8, Article I, of the Constitution authorized the Congress, among other things:

"To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

In the exercise of this constitutional power Congress enacted the patent and copyright statutes. So far as the franchises these statutes grant are concerned, the former is found in section 4884, and the latter in section 4952, of the Revised Statutes. All that is here material in those statutes follows:

PATENTS.

Sec. 4884. Every patent shall contain a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery. * * *

COPYRIGHTS.

Sec. 4952. Any citizen * * * who shall be the author, inventor, designer, or proprietor of any book, map, chart, dramatic or musical composition * * * and the executors, administrators or assigns of any such person, shall * * * have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending the same.

Further on herein we shall see that this Court has decided that there is a "well grounded distinction between the grant of the right to make and *vend* the patented machine and the grant of the right to *use* it" (*Dick v. Henry, infra*). In the case at bar we are concerned only with the grant of the right to *vend*. A comparison of that grant in these two legislative enactments will enable the Court to conclude whether it is reasonably possible to distinguish between them:

PATENTS.

Sec. 4884. The patent statute confers on the patentee "the exclusive right to * * vend."

COPYRIGHTS.

Sec. 4952. The copyright statute confers on the author "the sole liberty of * * vending."

We contend that these are "similar or equivalent powers, which must receive the same construction." We contend that the human intellect does not exist that is capable of distinguishing between "the exclusive right to vend" and "the sole liberty of vending." That one of these means precisely what the other means is too plain for argument.

(3)

With the foregoing facts and the copyright statute, as above quoted, before it, this Court decided that an author or publisher who has received his price for the book or other publication, can not invoke the copyright laws to protect a placard or notice attempting to restrict the power of alienation by a purchaser, or to prevent a resale at less than the price fixed in such placard or notice. *Bobbs-Merrill v. Straus*, 210 U. S., 339.

Thus far we have seen that in the *Bobbs-Merrill* case the book was copyrighted; defendants knew this; each book when it left the publisher contained a notice which attempted to restrict the retail sale price of the book to not less than \$1.00; defendants knew this, as did also the jobbers or wholesalers from whom defendants bought the copyrighted books; and we have also seen that, despite the copyright, and despite this knowledge defendants sold the books for 89 cents each. The suit was for infringement. We shall now see how the case was disposed of by the Court in an opinion by *Mr. Justice Day*, announcing the unanimous decision of this Court (p. 343, *et seq.*) :

"The present case involves rights under the copyright act. The facts disclose a sale of a book at wholesale by the owners of the copyright, at a satisfactory price, and this without agreement between the parties to such sale obligating the purchaser to

control future sales, and where the alleged right springs from the protection of the copyright law alone. It is contended that this power to control further sales is given by statute to the owner of such a copyright in conferring the sole right to 'vend' a copyrighted book.

"A case such as the present one, concerning inventions protected by letters patent of the United States, has not been decided in this court, so far as we are able to discover. * *

"In *Bement v. National Harrow Co.*, 186 U. S., 70, the suit was between the owners of the letters patent as licensor and licensees, seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the State court, and, of course, does not dispose of the questions to be decided in this case. * * *

"We therefore approach the consideration of this question as a new one in this court, and one that involves the extent of the protection which is given by the copyright statutes of the United States to the owner of a copyright under the facts disclosed in this record. Recent cases in this court have affirmed the proposition that copyright property under the Federal laws is wholly statutory, and depends upon the right created under the Acts of Congress passed in pursuance of the authority conferred under Article I, § 8, of the Federal Constitution: 'To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.' *American Tobacco Co. v. Werckmeister*, 207 U. S., 284; *White-Smith Music Co. v. Apollo Co.*, 209 U. S., 1; following the previous cases of *Wheaton v. Peters*, 8 Pet., 590; *Bank v. Manchester*, 128 U. S., 244-253; *Thompson v. Hubbard*, 131 U. S., 123-151.

"The learned counsel for the appellant in this case in the argument at bar disclaims relief because of any contract, and relies solely upon the copyright statutes

and rights therein conferred. The copyright statutes ought to be reasonably construed with a view to effecting the purposes intended by Congress. They ought not to be unduly extended by judicial construction to include privileges not intended to be conferred, nor so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant. * * *

"It is the contention of the appellant that the Circuit Court erred in failing to give effect to the provision of §4952, protecting the owners of the copyright in the sole right of vending the copyright book or other article, and the argument is that the statute vested the whole field of the right of exclusive sale in the copyright owner; that he can part with it to another to the extent that he sees fit, and may withhold to himself, by proper reservations, so much of the right as he pleases. [Exactly the contention now made here.]

"What does the statute mean in granting 'the sole right of vending the same'? Was it intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.

"In this case the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those who made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.

"The precise question, therefore, in this case is, does the sole right to vend (named in §4952) secure to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail, to the right to sell it at a certain price per copy, because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.

"In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work, a right which is the special creation of the statute. True, the statute also secures, to make this right of multiplication effectual, the sole right to vend copies of the book, the production of the author's thought and conception. The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. What the complainant contends for embraces not only the right to sell the copies, but to qualify the title of a future purchaser by the reservation of the right to have the remedies of the statute against an infringer because of the printed notice of its purpose so to do unless the purchaser sells at a price fixed in the notice. To add to the right of exclusive sales the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of

the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment."

Scribner's Sons v. Straus, 210 U. S., 352, involved facts similar to those involved in *Bobbs-Merrill v. Straus*, and followed the decision of that case.

This Court has not yet directly decided the question now presented under the patent law in a case where the attempt was to restrict by notice pasted on the patented article the resale price of that article after it had once been sold and after the patentee had received for it all the compensation he claimed. This Court has, as we have seen, in the two cases just cited, decided this precise question when it arose with respect to books protected under the copyright laws. The copyright laws cover manufacture or publication and sale, while the patent laws cover not only manufacture and sale, but use also. It may be that a different construction should be given to these laws, where the *use* of a patented article is involved, and such use has been so granted that the patentee has reserved to himself some pecuniary interest by royalty or otherwise, arising from the use of the article, and that in such a case the patentee may be said not to have received his full price. That question is, however, not presented by this certificate. Where, as in the case at bar, the patentee has received the full price demanded by him for the article, where he has in no way restricted its use, and where he has not reserved to himself any direct pecuniary interest in such article, the general rule applies and such article is freed from the patent monopoly. We contend that the "exclusive right to * * * vend," conferred by the patent laws (R. S., 4884), and the "sole liberty of * * * vending," conferred by the copyright laws (R. S., 4952), are similar or equivalent powers, which must receive the same construction; and that the question pre-

sented by this certificate has already been settled in our favor by this Court in the copyright decisions. We also contend that in *Keeler v. Standard Folding Bed Company*, 157 U. S., 659, the question here presented was practically settled, and that nothing in any of the subsequent decisions of this Court has in any manner modified or restricted the full force and effect thereof.

The instant case was twice fully heard on the merits before two learned judges of the *nisi prius* court, the first being a full hearing on plaintiff's motion for a preliminary injunction, and the second on defendant's demurrer. Both of the presiding judges, Judge Barnard on the first hearing, and Judge Wright on the second, announced from the bench their inability to distinguish the doctrine of *Bobbs-Merrill v. Straus* from that which should govern in this case.

This brings us to *Dick v. Henry*, 224 U. S., 1. *Bobbs-Merrill v. Straus* would leave nothing to be said in the instant case, were it not that plaintiffs insist that *Dick v. Henry* sustains their contention. We therefore assume the task of distinguishing *Dick v. Henry*.

In overruling plaintiffs' motion for rehearing Judge Wright made the following notation:

"The facts in *Henry v. Dick* are such as to give it no controlling effect in the case at bar. Motion for rehearing denied."

The salient facts in the case at bar, again stated, are as follows:

- (a) Plaintiffs have obtained letters patent on a product known as "Sanatogen";
- (b) Each package of the product bears the price restriction notice hereinbefore quoted;
- (c) The defendant is a retail druggist in Washington;
- (d) Prior to March, 1911, plaintiffs sold directly to de-

defendant some unstated quantity of the product, which defendant resold at retail at prices less than fixed in the restrictive notice;

(e) In March, 1911, plaintiffs refused further to supply defendant, and since March 10, 1911, plaintiffs have not supplied the defendant with said product;

(f) Plaintiffs sold said product to jobbers in the District;

(g) Defendant, after March 10, 1911, purchased from the jobbers, to whom plaintiffs had sold same, quantities of the product;

(h) There is no pretense that any attempt was made by plaintiffs to restrict the prices at which the jobbers could sell the product to the defendant;

(i) Having so purchased the product, defendant sold the same at retail at prices below those fixed in the restrictive price notice;

(j) Defendant had knowledge of the terms of said notice or label;

(k) Plaintiffs seek an injunction to restrain defendant's "infringement";

(l) Plaintiffs expressly waive any right to assert any contract obligations to them on defendant's part;

(m) Plaintiffs do not claim the right to receive any further price, royalty, or profit, from the jobbers to whom they sold, or from the defendant, or any other source; and

(n) In the sales to the defendant prior to March 10, 1911, and to the jobbers from whom defendant purchased after that date, plaintiffs obtained their entire price, all they claimed or ever expected to get for the articles so sold.

The facts in *Dick v. Henry* were:

(a) Plaintiff owned letters patent on a rotary mimeograph, a device for duplicating typewritten matter;

(b) Plaintiff supplied Miss Skou with one mimeograph;

(c) Each mimeograph contained a notice restricting the purchaser's right to use the machine with ink and paper made by the patentee;

(d) Plaintiff "sold its machines *at cost, or less*, and depended upon the profit realized from the sale" of ink and paper used with the machine;

(e) Defendant supplied Miss Skou with ink of his own manufacture with the knowledge, and intending, that it would be used with plaintiff's patented machine in violation of the restriction upon its use;

(f) Both Miss Skou and defendant (Henry) had knowledge of the terms of the restrictive notice; and

(g) Plaintiff (Dick) sued defendant as a contributory infringer, and sought to enjoin his supplying Miss Skou, and others similarly situated, with ink intended for use with the patented mimeograph.

1. The restriction in the *Dick* case related to the use of the patented article:

"Mr. Justice Clifford" in *Mitchell v. Hawley*, 16 Wall., 544, directed "attention to what he termed 'the well-grounded distinction between the grant of the right to make and vend the patented machine and the grant of the right to use it,' which, he says, 'was first satisfactorily pointed out by the late Chief Justice Taney, with his accustomed clearness and precision.'" *Dick v. Henry*, 224 U. S., 1, text, p. 20.

Counsel for plaintiffs, in the court below, took direct issue with the doctrine of this Court. Let us parallel this Court's ruling and counsel's contention in the Court of Appeals:

Dick v. Henry, per Mr. Justice Lurton:

"There is a well-grounded distinction between the grant of the right to make and vend the patented article, and the grant of the right to use it." (224 U. S., 20.)

Bauer v. O'Donnell, per Mr. Pindle, counsel for Bauer:

"The three branches of the patentee's monopoly, viz: making, using and selling, are, however, strictly analogous." (Brief, p. 13.)

2. In *Dick v. Henry*, the patentee had received for the patented article only the actual cost thereof to him, or less.

"It was stated at the bar, and appears fully in the opinion of *Judge Ray* (149 Fed. Rep., 424), who decided the case in the Circuit Court, that the patentee sold its machines at cost, or less, and depended upon the profit realized from the sale of other non-patented articles adapted to be used with the machine, and that it had put out many thousands of such machines under the same license restrictions" (Per *Lurton, J.*, 224 U. S., 26).

In the case now before the Court, the patented article was not sold at cost; the patentee does not depend upon the profit to be realized from the sale of other articles manufactured by him and used with the patented product; the plaintiffs have received all the price they asked, claimed, ever expected to get, or are entitled to, out of the sale and use of the patented product; and this Court has said:

"The patentee or his assignee having in the act of sale *received all the royalty or consideration which he claims*, for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentee." *Adams v. Burke*, 17 Wall., 453.

Again:

"When the patentee has once received his royalty, he cannot treat a subsequent seller or user as an infringer." *Morgan Envelope Company v. Albany Paper Company*, 152 U. S., 425.

Again:

"Having manufactured the material and sold it *for a satisfactory compensation* * * * the patentee, so far as that quantity of the product of his invention is concerned, has enjoyed all the rights secured to him by his letters patent." *Keeler v. Standard Folding Bed Company*, 157 U. S., 659.

Again:

"When the royalty has once been paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it as an essential incident of such ownership." (*Ibid.*, p. 664.)

Again:

"As between the owner of a patent on the one side, and the purchaser of an article made under the patent on the other, the payment of a royalty once * * * emancipates such article from any further subjection to the patent throughout the entire life of the patent." (*Ibid.*, p. 666.)

This Court has never overruled that doctrine.

In *Dick v. Henry*, the patentee had not "received all the royalty or consideration which he claimed," but looked to the use of the patented machine with ink and paper sold by him for his royalty and consideration; he had not sold the patented machine for "a satisfactory compensation"; the royalty to which he was entitled had not "once been paid." In the case here, the patentee Bauer and his assigns have "received all the royalty or consideration which they claimed"; the patentee here "has once received his royalty"; the patentee here has "manufactured the material and sold it for a satisfactory compensation"; and in this case "the royalty has once been paid to the party entitled to receive it."

Overlooking the distinction between the grant of the right to use, and the ability of the patentee to part with a portion of that right and at the same time reserve the undisposed of portion of it, and the grant of the right to vend and the inability of a patentee to make and sell absolutely and at the same time reserve to himself any right to resell any portion of the article once sold, the learned counsel for the plaintiffs argued in the court below (brief, p. 5) that—

“In selling *the article* in the case at bar the plaintiffs only withdrew the monopoly to the extent of allowing *the article* to be sold at retail at all prices from \$1.00 upwards, but they retained the right to sell *it* at all prices below \$1.00.”

Again (brief, p. 6) it was there said, referring to the defendant O'Donnell:

“They [*sic*] were at liberty to make any use of the packages within the limited immunity from the monopoly which was granted with the patent, but were not at liberty to trespass upon the portion of the monopoly reserved by the plaintiffs, viz.: the right to sell *the packages* at a retail price below \$1.00.”

The argument is untenable. It was utterly impossible for plaintiffs to sell a package of the patented article to O'Donnell and reserve to themselves the right to sell that package to any one else at any price. The argument is that a patentee, after having manufactured his patented device, after having sold that device at whatever price he chose, can, under his statutory patent right, retain in himself the right to sell that particular article—that concrete embodiment of the patented invention—at some other or different price than that named in the label on the article. Or, to phrase it somewhat differently, the argument is that

the patentee may part with the title to the concrete embodiment of the patented invention, receiving therefor the full price demanded for it, retainng no right to make any further profit out of it in virtue of the manner in which it is used or sold, but that, under his patent, by means of the label affixed to the article, he licenses the purchaser of that article to sell that particular article at not less than the **given price**, retaining in himself the right to sell, not other embodiments of the patented invention at a different price, *but to sell that particular embodiment of the invention* at a different price. This argument can not be sound, and it is only resorted to in an attempt to apply the inapplicable doctrine of *Dick v. Henry* to the wholly different situation presented by this case.

Returning again to the plaintiffs' contentions in the court below we emphasize the fact that there counsel claims that in selling "the article" to O'Donnell, plaintiffs withdrew it from the monopoly of the patent only to the extent of allowing "the article" to be sold at retail at all prices from \$1.00 upwards, "but they retain the right to sell it at all prices below \$1.00." Now, to what does the "*it*" in the **last clause refer**? Does counsel mean to contend that after selling, say, one thousand bottles of Sanatogen, to O'Donnell, plaintiffs retain the right to sell that identical thousand bottles to some one else at another price? That is an unthinkable paradox. Let us suppose those bottles to be identified by serial numbers running, say, from 1 to 1,000. Plaintiffs made and sold that quantity to O'Donnell. It is monstrous to say that Bauer & Co. retained the right to sell those identical bottles to some one else at, for instance, 99 cents. One can not resell that which one has already sold. Yet, the whole argument of the plaintiffs is made to hinge upon this supposed reserved right in Bauer & Co.

The indisputable fact in this case is that plaintiffs had reserved to themselves no interest whatever in the bottles of Sanatogen purchased by O'Donnell. They derived no profit from sales by O'Donnell, no matter how high the price received by him for the articles he sold. They sustained no loss on the sale of these articles owned by O'Donnell, even though the latter sold the product to the public at a price below the actual cost of manufacture. In *Dick v. Henry*, the patentee did reserve an interest in the particular machine sold to Miss Skou. Out of its *use* in the manner and with the materials specified in the restrictive notice, the patentee obtained the only profit to which he was entitled in virtue of his patent. He had an interest in the *use* of that machine. Bauer had no interest in the "Sanatogen" sold to O'Donnell. Bauer had no interest in the price, or any part of it, received by O'Donnell. And Bauer had no interest in the manner in which the stuff was used by O'Donnell's vendees. Indeed, the value of "Sanatogen," if it has any, is in its consumption. It perishes with its use.

We repeat, in *Dick v. Henry* the defendant deprived the plaintiff of the profits derivable from the supply of ink to the user of the mimeograph. There the plaintiff was shown to have charged only a nominal price for the mimeograph, and under the arrangement was to realize the full royalty on the use of the patented mimeograph by the receipt of profits from the sale of ink. When the user of the patented machine purchased ink from A. B. Dick Co., in paying for the ink he at the same time paid a royalty on the use of the patented machine. Dick sold the machine at actual factory output cost, and, therefore, if the purchaser obtained ink elsewhere the Dick Co. would not realize any profit whatever in the nature of royalty for its patent. That is not the circumstance here. The profits or royalty of Bauer & Co. were absolutely fixed and paid

when the original sale was made. If O'Donnell had re-tailed the stuff at \$5.00 per bottle Bauer would not have profited in any manner. Had O'Donnell sold the stuff at 30 cents per bottle no loss whatever would have been suffered by Bauer & Co.

From any and all possible viewpoints the profits or royalties of Bauer & Co. are wholly independent of the retail price at which O'Donnell sells.

To sum up this phase of the subject: *Dick v. Henry* related to controlling the *use* of a patented article of manufacture after it had been sold to the patentee, with an express stipulation restricting the manner of using. The patent confers on the patentee the exclusive right to make, use and vend, and in the *Dick* case the right to use was so granted that the patentee had reserved to himself a pecuniary interest, arising from the use of the article, and he had not received from the article the full price or royalty to which he was entitled in virtue of his patent.

3. In *Dick v. Henry*, the majority opinion of this Court expressly approves the doctrine of the *Bobbs-Merrill* case, and in so doing *Mr. Justice Lurton* again lays stress on the distinction between the right to vend and the right to use, saying:

"While there are resemblances of the right of the author to 'vend' his copyright production, and of the patentee to 'vend' the patented thing" yet by the patent statute the inventor is granted "the exclusive right to make, *use* and vend the invention of discovery." The word "*use*" is italicized by the court. *Mr. Justice Lurton* further says that "there is no collision whatever between" the decisions in the *Bobbs-Merrill* case and the *Dick* case; he points out that the former had to do with the attempt to control the price where vending the copyright book, while the latter related to the *use* of a patented article, and says that each of these cases results "upon a construction of the applicable statute, and the special facts of the case" (224 U. S., 47).

4. The futility of attempting to apply the doctrine of *Dick v. Henry* to the case at bar is demonstrated by the following argument found on page 5 of plaintiffs' brief in the Court of Appeals:

"Plaintiffs'-Appellants' notice of the price restriction on its packages is therefore notice to all the world that the right to sell the article below the price stated on the packages (\$1.00) is not granted and does not pass from the plaintiffs. *That portion of the monopoly which consists in the right to sell the patented article below the price of \$1.00 is not removed from the article, but remains in the plaintiffs.*"

Here we have counsel asserting that the patent law conferred upon the plaintiffs a monopoly consisting in the right to sell the patented article below the price of \$1.00. Counsel can cite no authority for this contention, and there is none. The right to sell Sanatogen at \$1.00, or at any other price, was not derived from the patent law. Let us test the soundness of the contention: Suppose the inventor had applied for a patent on the mixture "to be sold at retail at not less than \$1.00;" no one imagines that the Patent Office could or would have included any such grant in the patent. The Government has no power or authority, in the existing state of the law, to confer on a patentee the right to fix the price at which others shall sell specimens which they have bought from the patentee, paid for, and own.

The plaintiffs had, in virtue of the patent statute, an exclusive right to vend. They exercised that right. In the exercise of the right, they enjoyed all that the patent statute conferred on them. After the original sale of the article, with no interest in its future career retained by the patentee, it became an article of commerce subject to no restraint save that which the laws of the land imposed upon any chattel. If the defendant invaded any right of the

plaintiffs, it was a contractual right. But plaintiffs are careful to waive the question of contract, realizing that their attempt to keep up the retail sale price of the patented article must be enforced under patent authority or must fall as unenforceable, plaintiffs' counsel constantly bearing in mind that under the statutes in many States, under the Federal statutes, and under the common law, this price restriction under any sort of a contract is clearly illegal. Hence they stake their hope upon the monopoly of the patent.

The identical question presented by the instant certificate has very recently been elaborately considered by *Judge Ray*, who wrote the opinion of the court below in *Dick v. Henry* and whose views on the point presently before this Court are therefore peculiarly interesting and valuable. The subject was before him in the case of *Waltham Watch Company v. Keene*, not yet reported. Understanding that each member of this Court has lately been handed a copy of *Judge Ray's* opinion, we shall not indulge in any review of it, nor of the later cases therein cited, but, pretermittting any further reference, content ourselves with the statement that it is a most thorough and able exposition of the reasons and authorities showing why the question certified in the case at bar should be answered in the negative.

IV.

THE CONCLUSION.

In the light of the decision of this Court in *Bobbs-Merrell v. Straus*, and of the Court's reaffirmance of that case in *Dick v. Henry*; of the distinction which the Court has drawn between a sale by the patentee of a right to use the patented article in a specified way, and the grant in the patent of the exclusive right to vend; of the repeated deci-

sions by this Court that a patentee exercises and parts with all of the rights conferred on him by the patent statutes when he has *once* received all of the royalty or consideration which he claims out of the patented article which he sells; and of the facts that the patentee in *Dick v. Henry* had not only not received all, but had not received any royalty or profit by the sale of the patented mimeograph, while in the *Bobbs-Merrill* case, and in the case at bar, the patentees, in exercising their right to sell, parted with every interest they had in the articles sold and received every cent they claimed out of those articles, we submit that the question certified by the court below should be answered in the negative.

We desire to acknowledge the valuable assistance received by us in the preparation of this brief from Mr. Frank Y. Gladney, author of "Restraint of Trade in Patented Articles," and from the article of Mr. Walter H. Chamberlin, formerly Assistant Commissioner of Patents, on the "Emancipation of Patented Article," published in the *Illinois Law Review* of January, 1912. We can not better close than by quoting from the brief of Mr. Chamberlin filed in this Court in a case very recently decided on a question of jurisdiction:

"The numerous cases cited show that a large and constantly increasing practice has grown up among concerns manufacturing devices under patents, of placing on their patented articles notice similar to that in the case at bar, and upon violation of the terms of the notice to sue the guilty party for patent infringement. The result as can be readily appreciated is that when a dealer like this defendant desires to fix his own retail selling price on goods which he has bought and which he owns (containing a placard such as in the case at bar), he must contest the validity of the patent, an experimental, long, tedious and expensive proceed-

ing. Failing in this, he must meekly bow to the Czar patentee. Such a condition is intolerable and we feel that this Court will recognize that this case while nominally between private parties brings to this Court a question fraught with the utmost importance to patentees, retailers and the *purchasing public*, for it must **be borne in mind that if this price restriction can not be enforced under patent authority itself, under the statutes of many States, and in our opinion at the common law, it is illegal, and the public are being forced to pay exorbitant prices for articles, the retail selling price of which would be materially reduced under natural and healthful competition, if unrestricted by false doctrines concerning patent monopolies."**

It is respectfully submitted that the question certified should be answered in the negative.

FRANK J. HOGAN,
DANIEL W. BAKER,
Attorneys for James O'Donnell.

WASHINGTON D. C., March 28, 1913.

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V.

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1912.

No. 951.

BAUER & CIE AND THE BAUER CHEMICAL COMPANY

vs.

JAMES O'DONNELL.

AFFIDAVIT OF SERVICE.

DISTRICT OF COLUMBIA, ss.:

Daniel W. Baker, one of the attorneys for James O'Donnell, being first duly sworn, deposes and says that.....
April, A. D. 1913, he mailed, postpaid and registered, a copy of this brief to Mr. Edward J. Prindle, counsel for the adverse party, addressed to his offices, 111 Broadway, New York.

.....

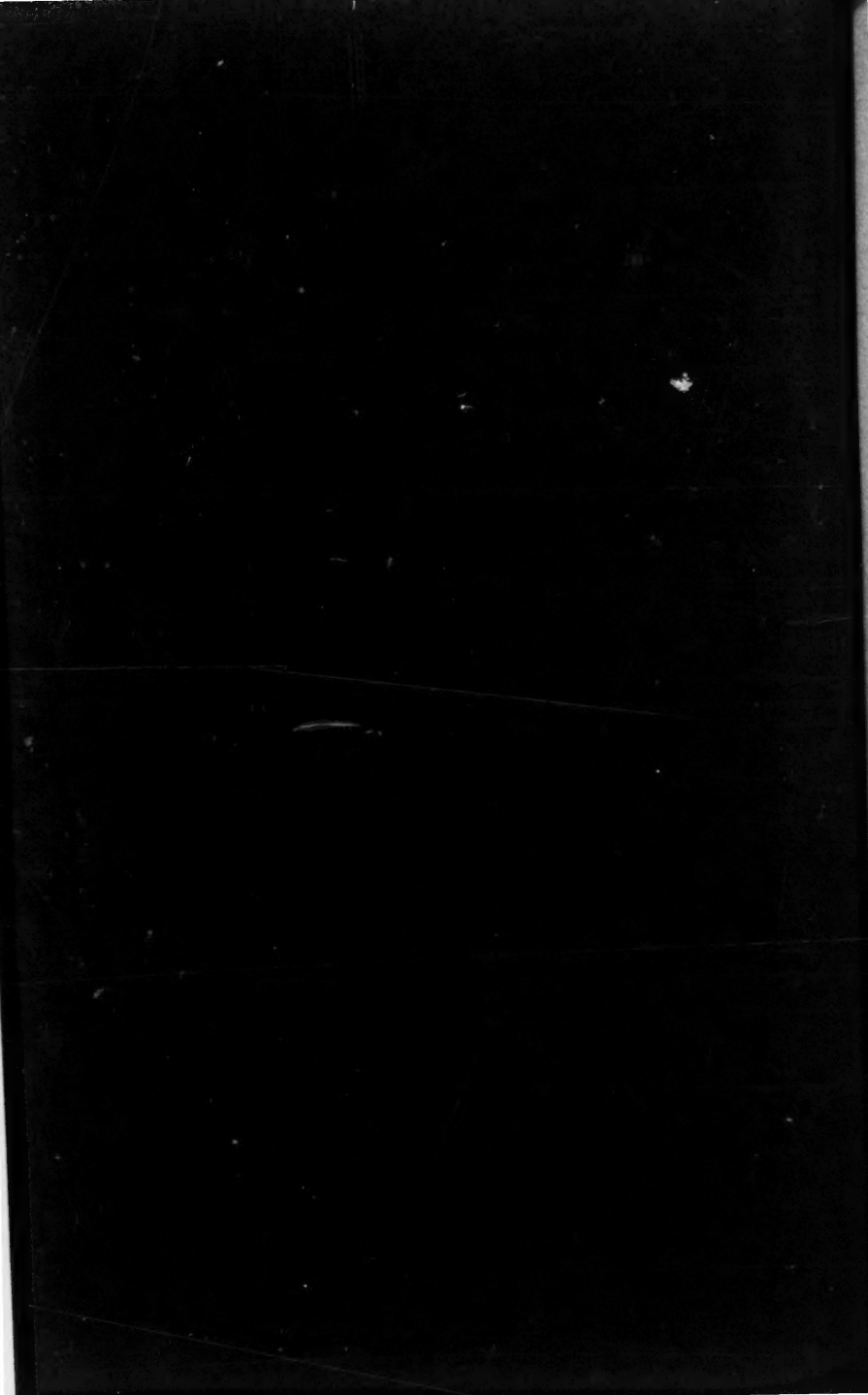
Subscribed and sworn before me this day
of April, A. D. 1913.

.....,

Notary Public, D. C.







IN THE

Supreme Court of the United States

October Term, 1912

No. 951

BAUER & CIE ET AL.,

v.

JAMES O'DONNELL.

Brief filed for the Waltham Watch Co.

INTRODUCTORY

There is now pending in the United States Court for the Southern District of New York, on appeal to the Circuit Court of Appeals, the case of **Waltham Watch Company v. Keene**, (see 202 Federal, 225); and there is pending in the United States District Court for the District of Massachusetts, another case (not reported so far) between the same parties in which a demurrer to the bill has been overruled, and an injunction issued against the defendant Keene, by Mr. Justice Dodge.

These cases present some of the issues raised by the certificate in the case at bar; for which reason, and because the recent decision of Mr. Justice Ray in the case in 202 Federal is made the subject of discussion in the briefs filed by counsel for the respective parties in the case at bar, the undersigned respectfully asks leave of the court to file as *amicus curiae* a brief or memorandum for the Waltham Watch Company.

I.

THERE IS A VARIETY OF LEGAL ISSUES PRESENTED BY PRICE-RESTRICTION CONTRACTS.

The method of marketing goods known as the price-contract or price-restriction method is now applied to so many kinds of business, and in so many different ways, that the litigation on the subject raises questions of law which are seldom the same in any two cases.

At the present moment there are probably twenty-five or more such cases pending in the courts of the United States.

Although the case now before this court appears to involve a simple and general question, it is quite conceivable that a decision of it one way or the other would not necessarily involve the fate of any considerable number of the other suits.

The parties to these other cases may, therefore, be permitted to deprecate a decision of the case at bar which is placed upon any ground not absolutely necessary to the decision; for this might amount to a pre-judgment of the rights of the parties to the other suits without their having had their day in court.

Without attempting to indicate the innumerable forms in which the price-restriction system appears in actual business, we may call attention to three questions, one or two of which, but not necessarily all three, are probably common to most of the suits now pending.

(1) Is the original contract between the manufacturer of patented articles and the vendee, including its conditions as to re-sale, good as between them?

(2) Is it actionable for a third party having notice of the terms of the original contract to induce one of them, the purchaser, to violate its terms by selling goods at less than the stipulated price?

(3) Are conditions limiting the sale price of goods binding on third parties into whose possession the goods have come with notice; that is, do the conditions follow the goods?

If the first question is to be answered in the negative, we assume that a similar answer must be given to both the others; and if the first question is to be answered in the affirmative, on the ground that the original contract, including its conditions, is good as between the parties to it, an affirmative answer must be given to the second question, but not, necessarily, to the third.

The court may hold that although such conditions cannot be made to follow the goods into the hands of parties who acquire them with notice, the conditions themselves, not being per se unlawful, are binding upon the original vendee by reason of the contract into which he has voluntarily entered.

The questions involved in (1) and (2) being, according to our contention at least, entirely distinct from the question involved in (3), should not be decided by the court in a case which presents the third question, unless the decision of the other two is necessary to a decision of that.

II.

THE QUESTION WHETHER PRICE RESTRICTIONS ARE BINDING UPON THE ORIGINAL PURCHASER BY VIRTUE OF THE TERMS OF AN EXPRESS CONTRACT BETWEEN HIM AND THE PATENTEE, IS NOT NECESSARILY BEFORE THE COURT IN THE CASE AT BAR.

The certificate in the case at bar shows (see brief for the appellant, page 3) that the defendant bought the goods which he subsequently sold at less than the contract price, not from the patentee, but from third parties; and the precise question certified by the Court of Appeals of the District of Columbia is this:

"Did the act of the appellee in retailing at less than the price fixed in said notice, original packages of 'sanatogen' purchased of jobbers aforesaid, constitute infringement of appellant's patent?"

There was no contract of any kind respecting these goods between the plaintiff and the defendant.

The same is true of the case presented by **Waltham Watch Company v. Keene**, reported in 202 Fed., 225; and also of the cases principally relied upon by the defendant in the case at bar, viz: **Park v. Hartman**, 153 Fed., 24; **Bobbs-Merrill Co. v. Straus**, 210 U. S., 339; and **Miles Medical Co. v. Park**, 220 U. S., 373.

In all of these cases the defendant had procured the goods in question from third parties, and not directly from the plaintiff, and in none of them were there contractual relations between the plaintiff and the defendant.

The case of **Waltham Watch Company v. Keene**, now pending in the United States District Court for the District of Massachusetts, raises (and so, for all we know, do some of the other suits upon this general subject now pending in the United States courts) the question, not whether a price restriction on patented articles can be so drawn as to follow the goods into the

hands of every purchaser with notice, but merely whether such a condition is binding upon the original vendee when made a part of an express contract between him and the patentee.

The Waltham Watch Company submits that, whether or not the price restriction is binding upon third parties, there is nothing per se unlawful in the manufacturer of patented articles selling them upon condition that the purchaser from him shall re-sell only at a stipulated price; that if the purchaser agrees to these terms, he is bound to them by the ordinary principles of contract law; and that a breach upon his part may be made the subject either of a suit at law by the manufacturer, or, in an appropriate case, of a bill in equity.

There may be many reasons entirely consistent with the public welfare, and in no way contemplating restraints of trade or competition, why the manufacturer of a patented article should wish to control the price at which those who enter into contractual relations with him shall sell; and that such contracts are not obnoxious to public policy or to the terms of the Sherman act, or otherwise illegal, is, we believe, the settled doctrine of this court.

It does not, however, necessarily follow that the conditions attach to the goods and become binding upon everybody into whose hands they come with notice; and this, as we understand it, is the issue in the case at bar.

The other question, which involves the validity of the restriction as a matter of express contract, is not, as we look at the matter, presented, or at least is not necessarily presented, by the case at bar; and does not appear to be discussed by counsel for either party in his brief.

For the court to decide this question in the pending suit would therefore be, as we understand the matter, a pre-judgment of the rights of the plaintiff in the Massachusetts case of **Waltham Watch Co. v. Keene**, and other similar suits, if there are any, without according to the plaintiffs their day in court, or hearing arguments upon the question.

III.

THE QUESTION WHETHER PRICE RESTRICTIONS ARE BINDING UPON THIRD PARTIES WITH NOTICE.

As already pointed out, this is a very different question from that considered above, and might be decided either way without in any manner affecting the validity of the original contracts.

Upon this issue the company is, of course, desirous that the court should render a decision in favor of the plaintiff; but does not see that it is necessary to add anything by way of argument or citation of authorities to the admirable briefs submitted by Mr. Prindle for the plaintiff, and by Mr. Fish for the Gillette Razor Company.

We do, however, desire to express a strong dissent from the distinctions sought to be drawn in Mr. Prindle's brief between the issues presented in the case of **Waltham Watch Company v. Keene**, 202 Fed., 225, and the case at bar, and also from some of the distinctions between the two cases which might be founded upon the opinion of Mr. Justice Ray.

Counsel for the plaintiff in the case at bar contends that this case is so distinguishable from that of **Waltham Watch Co. v. Keene**, that a decision for his client would not be inconsistent with the decision rendered by Mr. Justice Ray in favor of the defendant in the Keene case.

We are unable to acquiesce in this contention.

Mr. Prindle relies upon the fact that the conditions as drawn in the Bauer contracts are broader than those found in the Waltham Watch Company contracts, in that, while the latter provide that upon breach the title shall revert, the former provide that *all* the rights of the patentee shall re-vest in him. We are unable to perceive the force of this distinction.

In the next place, Mr. Prindle points out, as does Mr. Justice Ray in the opinion in 202 Federal, that the Waltham Watch Company patents do not cover the

entire article, but only certain features of it; and Mr. Prindle goes so far as to argue that a decision of this court in favor of his client would not be inconsistent with the decision of Mr. Justice Ray in the Keene case, because in his case the patent covered the entire article.

This argument loses sight, however, of the fact that it was agreed by stipulation in the Keene case (see 202 Fed., pp. 226-227 and 230) that the patented features were "material and substantial" parts of the watch movement as put upon the market; and in view of this admission, we are unable to appreciate the force of the distinction relied upon.

If a patentee has the right to attach conditions to his goods, it cannot, we submit, make any difference whether his patent applies to the goods in their entirety, or to a part thereof, provided that part is essential to the utility and value of the goods as put upon the market. The steam engine is one hundred years old, more or less; but if anyone should now devise an improvement which would save 50 per cent of the efficiency of coal, as compared with the relatively small percentage saved by the best engines now upon the market, it could hardly be contended that he was not entitled to the full benefit of the patent laws of the United States, simply because his patent was for an improvement, and did not cover the entire article.

Mr. Prindle next contends that the notice which accompanied the goods in the case at bar provided that the goods should be *used* as well as sold, according to the terms therein stated.

This appears to us as a mere device of the patent solicitor to add the word "use" to the word "sale," and thus duplicate the chances of his client in the litigation which he foresaw. It does not seem to us that the essential nature of the case is in anywise changed.

The undersigned respectfully denies that there is any distinction whatever between the case of **Waltham Watch Company v. Keene**, 202 Fed., 225, and the case at bar, so far as the question now under discussion goes.

A final decision should be reached upon the merits of this important question regardless of minor divergences in the form of the contract, or of the nature of the business transacted. The Waltham Watch Company earnestly trusts that the court, in so far as this question goes, will render a decision one way or the other which will settle the question for good.

IV.

SUMMARY.

The Waltham Watch Company respectfully represents:

(1) That price-restrictions on patented articles follow the goods, and that the case at bar should therefore be decided for the plaintiff.

(2) That in this event, the court should either treat the case of **Waltham Watch Company v. Keene**, 202 Fed., 225, as indistinguishable, and so state; or, if this appears to the court not to be clear, it should not determine the question in advance of the argument in that case, which is quite certain to be before this court before long.

(3) That if the court holds that price restrictions on patented articles do not follow the goods, and therefore that the decision in the case at bar should be for the defendant, it is not necessary to hold that such restrictions are not a valid part of the original contract between patentee and vendee, and binding on the latter, though on him alone.

(4) That this last question should be treated by the court as either already settled in favor of the validity of such contracts as between the parties thereto, or should be left undetermined in the case at bar, to be settled when the case of **Waltham Watch Company v. Keene**, now pending in the district of Massachusetts, or some other case involving the same point, shall come before the court.

Respectfully submitted by

NATHAN MATTHEWS,

Of Counsel for Waltham Watch Company.



Supreme Court of the United States.

October Term, 1912.

No. 951.

Office Supreme Court, U. S.
FILED.

APR 15 1913

JAMES H. McKENNEY,
CLERK.

BAUER & CIE and THE BAUER CHEMICAL COMPANY,
Plaintiffs-Appellants,

vs.

JAMES O'DONNELL,
Defendant-Appellee.

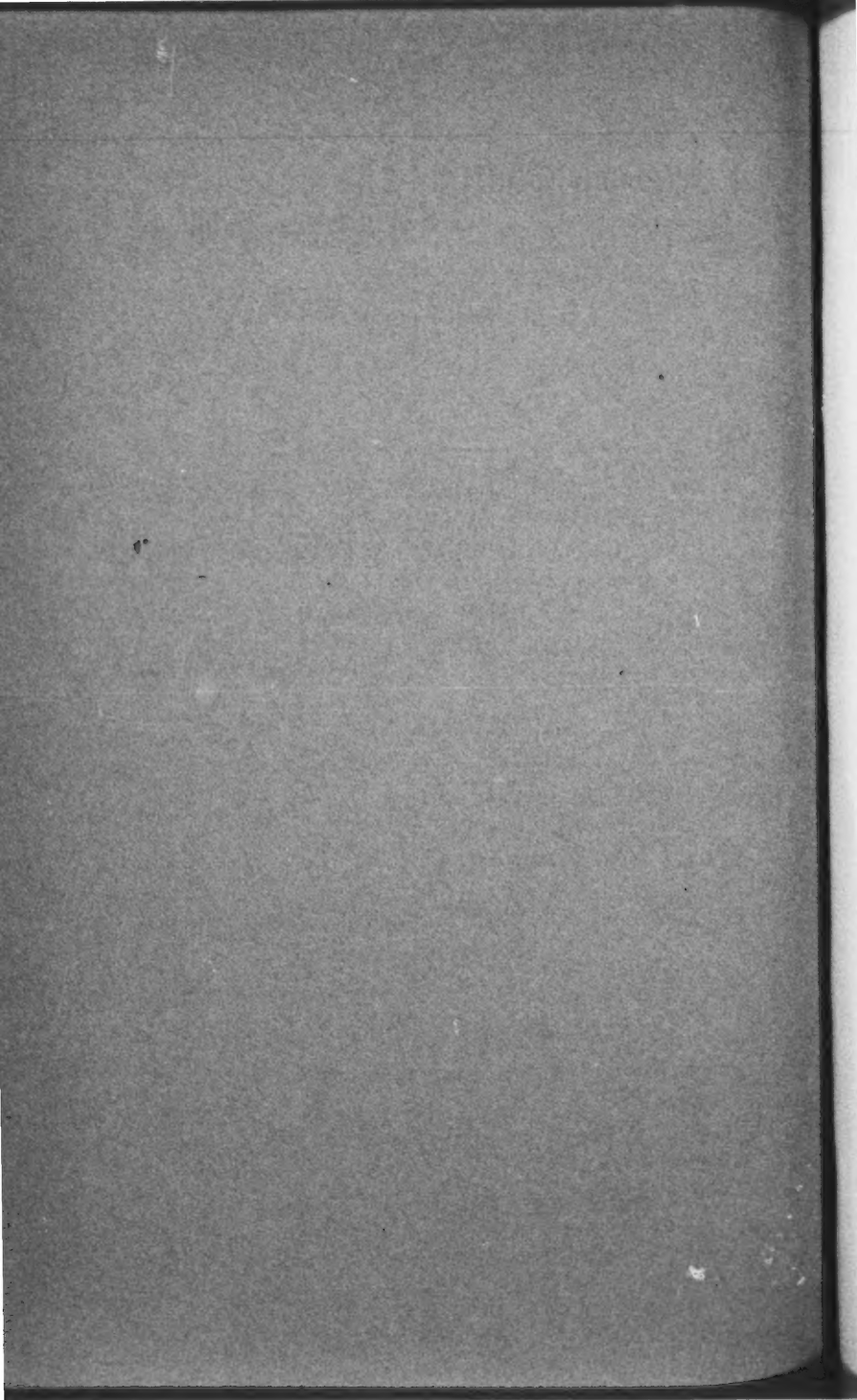
Suit on Patent No. 601,995

Brief on Behalf of The Victor Talking
Machine Company.

Filed by Leave of Court in Support of the Plaintiffs-Appellants'
Contention.

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Supreme Court of the United States.

October Term, 1912.

No. 951.

BAUER & CIE AND THE BAUER CHEMICAL
COMPANY,

Plaintiffs,

vs.

JAMES O'DONNELL,

Defendant.

SUIT ON PATENT NO. 601,995.

BRIEF ON BEHALF OF THE VICTOR TALKING
MACHINE COMPANY.

Filed by Leave of Court in Support of the Plaintiffs'
Contention.

STATEMENT OF THE CASE.

It is respectfully submitted that the question involved in this case is not a complicated one, but easy of solution in view of the decisions of this Honorable Court in the cases of Bobbs-Merrill Co. vs. Straus, 210 U. S. 339 and Henry vs. Dick, 224 U. S. 1.

The question certified is a simple proposition, practically answered by these prior adjudications, and

there should be no confusion or misunderstanding. The answer of this Honorable Court to the question certified will apply equally to the sale of all patented goods, machines, manufactures, and in fact to all patented specialties, as well as compositions of matter, and a decision adverse to the proposition thought to be so thoroughly established, would have a far-reaching and disastrous effect to trade in patented goods. This is especially true today when large industries have been built up in the manufacture of patented specialties having selling systems founded upon the doctrine laid down in a long line of decisions of the United States Circuit Courts and Circuit Courts of Appeal, such doctrine as enunciated in the case of Victor Talking Machine Co. vs. The Fair, 123 Fed. Rep., page 424, based upon the broad doctrine in Heaton-Peninsular Button-Fastener Co. vs. Eureka Specialty Co., 77 Fed. Rep. 288, and sanctioned by this Honorable Court in the case of Bement vs. National Harrow Co., 186 U. S. 70, and followed by Henry, et al., vs. Dick, 224 U. S. 1.

Re Bobbs-Merrill Co. vs. Straus.

The main contention on behalf of the defendant in this case is that the question certified must be answered in the negative because of the decision of this Honorable Court in the case of Bobbs-Merrill Co. vs. Straus, *supra*. As distinctly stated in the decision of the court by Mr. Justice Day in that case, there was no intention on the part of the court to hold that the decision in that case should govern in patent cases; on the contrary, the decision distinctly stated:

“there are differences between the patent and copyright statutes in the extent of the protection granted by them.”

Further the court said, quoting from the case of Park vs. Hartman, 153 Fed. Rep. 24:

“There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statutes and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other.”

The case of *Bobbs-Merrill Co. vs. Straus* was considered by this Honorable Court in *Henry et al. vs. Dick*, in which latter case the court said, *inter alia*:

“While there are resemblances between the right of the author to ‘vend’ his copyrighted production, and of the patentee to ‘vend’ the patented thing, the inherent difference between the production of an author, be it a book, music or a picture, and that of an inventor, be it a machine, a process or an article, is so manifest that the exclusive right of one to multiply and sell was declared sufficient to give him that exclusive right to his writings purposed by the Constitution. To the inventor, by Section 4884 Revised Statutes, there is granted ‘the exclusive right to make *use* and vend the invention or discovery.’ This grant, as defined in *Bloomer vs. McQuewan*, 14 Howard, 549, ‘consists altogether in the right to exclude every one from making, *using* or vending the thing patented.’ Thus there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes. *Adams vs. Burke*, 17 Wall. 453; *Mitchell vs. Hawley*, 16 Wall. 544; *Rubber Co. vs. Goodyear*, 9 Wall. 788, 798.”

The court further stated:

“The kinds of property rights sought to be guaranteed and the terms of the two statutes are

so different that very different constructions have been placed upon them. There is no collision whatever between the decision in the Bobbs-Merrill case and the present opinion. Each rests upon a construction of the applicable statute, and the special facts of the cases."

The Main Difference Between the Copyright and the Patent Acts as to the Point in Question—The Right to Control the Price of a Patented Article Emanates From the Statutory Right to Control the Use.

The patented article in suit was licensed by plaintiffs for sale and *use* only when sold at a price not less than \$1. It was not licensed to be sold at less than \$1, and the notice provided that any *use* of the patented article when sold at a less price would constitute an infringement.

The main difference between the rights of a proprietor of a copyright and the rights of the owner of a patent, as far as the right to restrict the price at which the protected goods should be sold, resides mainly in the fact that the patentee is given by the statute the unrestricted right to regulate the "*use*" of the patented product, as well as the right to make and vend, while the copyright owner under the statute is given only the right to multiply and vend.

The main distinction is that the patentee, when he sells the patented article with a restriction as to *use*, can limit the *use* of the article within any bounds, and under any limitations which he sees fit (which are not contrary to public morals, and public health, etc.). This includes the right to limit the *use* of the patented machine or device only to such of the public and only to such persons as shall have paid not less than a given price for the same.

The patentee may sell his machine, or article, with the restriction upon it that it shall be licensed for

use only in the State of New York, or in the city of Philadelphia; or with the restriction and notice that it is licensed for *use* only by bakers, or by a certain individual, or class of individuals, or by a class of individuals who shall have previously qualified in some way for such use, or shall have previously paid for the right to use the device not less than a certain price.

This right does not so much emanate from the statutory right to *vend*, as it emanates from the right given to the patentee of exclusive "*use*," upon which use he may place any reasonable restrictions. A price restriction is a reasonable and legitimate restriction (*Bement vs. National Harrow Co., supra.*).

The ungranted rights remain in the patentee, and any violation of any of those rights is an infringement.

The *Bobbs-Merrill* case decided that the mere statutory grant of the sole liberty to vend did not give to the copyright proprietor the right to control the resale price to the public.

If this applies also to the grant of the exclusive right to vend in the patent statute, it by no means follows that the patentee has not the right to place upon his patented article a limitation that the patented machine *shall not be used* when sold at less than a certain price. The patentee has this right by virtue of the special grant in the patent statute of the right to the exclusive *use*, which includes all control over the *use*. This right of the patentee therefore emanates, among other things, from the special grant in the patent statute to control the *use*, which does not pertain to the copyright grant.

This is the main distinction between the rights of the owner of a copyright as considered in the *Bobbs-Merrill* case, and the right of a patentee as considered by this Honorable Court in *Henry et al. vs. Dick*.

Admitting, therefore, for the sake of argument only, that the sale by the patentee is an

exercise of his right to *vend*, and that he cannot, therefore, control the re-sale of the patented article to a subsequent purchaser under the statutory right to *vend*, yet it is manifest, as in the case at bar, where the "*use*" is licensed, only after a given price has been paid for the patented article, that a *use* of the patented article, when sold at a less price, is an *infringing use*. It follows that the user is not the only infringer, but that his vendor as well, is guilty of *contributory infringement*, without question. (*Henry et al.*, vs. *Dick*, *supra*.)

Manifestly it was intended by this court in the *Bobbs-Merrill* case, that this distinction should be recognized, which is consistent with the holding in that case, coupled with the doctrine laid down by this Honorable Court in *Henry, et al.*, vs. *Dick*.

Judge Ray in the case of *Waltham Watch Company vs. Keen*, 202 Fed. Rep. 225, has apparently failed to observe this distinction.

CONCLUSION.

All other questions involved have been very thoroughly considered in the very able briefs of the Plaintiffs and of Mr. Frederick P. Fish and Thomas W. Pelham, and we will not burden the court with further discussions. Suffice it to say that in our judgment, whatever the rights of a patentee as to the control of the re-sale may be, under the statutory grant of the exclusive right to *vend*, his right is clear under the statutory right to the exclusive "*use*" to control and limit that use unrestrictedly, including the limitation that no license to *use* is granted where the patented article shall be sold to the public at less than a given sum. The patentee reserves the right to the use of the article in himself, except so far as he grants out the right to the use, so that such unlicensed use is a clear infringement. It is a reasonable right

in that, among other things, the patentee reserves the right to treat the entire purchasing public alike in promoting the introduction of his patented article.

All of which is respectfully submitted.

HORACE PETTIT,

Of Counsel for Victor Talking Machine Co.

April 12, 1913.



10

Court

Office Supreme Court, U. S.
FILED.
APR 7 1913
JAMES H. MCKENNEY,
CLERK.

Supreme Court of the United States.

OCTOBER TERM, 1912.

No. 951.

**BAUER & CIE AND THE BAUER CHEMICAL
COMPANY, Plaintiffs,**

v.

JAMES O'DONNELL, Defendant.

Suit on Patent No. 601,995.

**BRIEF ON BEHALF OF THE GILLETTE SAFETY
RAZOR COMPANY.**

**FILED BY LEAVE OF COURT IN SUPPORT OF THE PLAINTIFFS'
CONTENTION.**

**FREDERICK P. FISH,
THOMAS W. PELHAM,**
Counsel.



Supreme Court of the United States.

OCTOBER TERM, 1912.

No. 951.

**BAUER & CIE AND THE BAUER CHEMICAL
COMPANY, PLAINTIFFS,**

v.

JAMES O'DONNELL, DEFENDANT.

Suit on Patent No. 601,995.

BRIEF ON BEHALF OF THE GILLETTE SAFETY RAZOR COMPANY.

**FILED BY LEAVE OF COURT IN SUPPORT OF THE PLAINTIFFS'
CONTENTION.**

STATEMENT OF THE CASE.

The question presented by the certificate from the Court of Appeals of the District of Columbia to this Court is : —

Is a retailer who has purchased from the patentee, directly or indirectly, a patented article not sold outright but coupled with a limited license evidenced by a notice on the article to the effect that license is given to resell the article only at not less than a certain price, that license for use is given only when the article is sold at not less than that price, and that a sale below that price or a use when bought below that price

will constitute an infringement, guilty of infringement when with knowledge of such notice he sells the article at a lower price?

This Court has never passed upon this exact question. (*Bobbs-Merrill Co. v. Straus*, 210 U. S. 339), but it has passed upon a question involving the same principles of the patent law. *Henry v. Dick Co.*, 224 U. S. 1.

We believe that the reasoning of this Court and the principles laid down in the latter case, based as they are upon a sound recognition of the fundamental rights of a patentee under the statutes, are controlling in this case.

Before considering the authorities we will briefly call attention to the underlying theory on which the rights of a patentee to his invention and his right to retain to himself so much thereof as he may think wise, are given him by the statutes in return for his disclosure to the public of his invention or discovery.

For the purpose of promoting the progress of the useful arts, almost all civilized countries reward an inventor, in consideration of the disclosure of his invention, with the exclusive right to his invention for a limited term of years. The basis for this enlightened policy is found in the Constitution of the United States, and the spirit of the provision of the Constitution has been uniformly carried out by the Patent Statutes. It is recognized that the grant to the inventor rests on sound public policy and should be construed in a liberal spirit to protect his rights. *Seymour v. Osborne*, 11 Wall. 533.

It is from this point of view, that of protecting the inventor in his just and meritorious rights, that the question involved in this case should be approached.

THE RIGHT GRANTED BY A PATENT.

Section 4884 of the Revised Statutes establishes the patent right in the following language:—

“Every patent shall contain a short title or description of the invention or discovery, correctly indicating its nature and design, and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use and vend the invention or discovery throughout the United States and the Territories thereof, referring to the specification for the particulars thereof.”

The grant is of the exclusive right (a) to make, (b) to use and (c) to vend the “*invention or discovery*”. There is no grant in terms of a right to make, use and vend the *machine or article of manufacture* embodying that invention or discovery. As has been recognized by the courts from the beginning, the right granted by a patent is not the right to make, use or sell the *article* covered by the patent. That right would exist without the patent. By reason of the exclusive control of the invention, granted to the patentee, the patent right granted to him is the power of excluding others from either making, using or vending any article embodying his invention.

In *Bloomer v. McQuewan*, 14 How. 539, the Supreme Court said (p. 549):—

“The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee.”

The patentee himself may have no right to make, use or vend an article embodying his invention. He cannot do so if such an article is an infringement of a patent owned by somebody else. (*Blanchard v. Putnam*, 8 Wall. 425.)

He cannot do so if the manufacture or sale of the article is contrary to public policy or in violation of laws passed in the exercise of the police power.

Patterson v. Kentucky, 97 U. S. 501.

In other words, the grant by the United States confers no constructive or positive rights upon the patentee to do anything, but confers upon him merely the negative right to exclude others from making, using or vending any article which embodies his invention without his consent or except on such terms as he may impose.

Bearing in mind this fundamental principle of patent law and the character of the right granted to the patentee, the right of the plaintiffs to hold the defendant as an infringer because he has resold the patented article for a less price than that for which he was licensed to sell it seems clear.

The right to exclude others from making, using or vending the patented article is complete and absolute, and does not depend upon the patentee's exercising any one of those rights himself. *Paper Bag Case*, 210 U. S. 405.

The patentee may, by the grant of a license, part with the entire right to exclude a third person from making, using or vending the patented article, or he may part with it to an extent limited as he may see fit, reserving the rest of the entire right of control. The right to control completely includes the right to control partially.

In *Henry v. Dick Co.*, the patentee, by his license, surrendered his right to exclude Miss Skou from using the mimeograph with the ink and stencil paper sold by him, but he retained the right to exclude her from making or vending the mimeograph and the right to exclude her from using it in any other way than that above specified.

Similarly, in the case at bar, the patentee, by his license, parted with the right to exclude defendant from selling the patented Sanatogen at one dollar per package, or more, but

he retained the right to exclude the defendant and all others from selling the patented Sanatogen at less than one dollar, as well as from making it. He also parted with the right to an ultimate user of using the article if he paid a certain price for it, but retained the right to exclude the final purchaser from using the article if sold to him for a lower price.

In the Mimeograph case and in the case at bar the patentee parted with but a portion of his right to exclude others from making, using and vending the patented article, and he retained to himself the right to exclude others from making, using and vending the patented article in every other possible manner. And the retention of the portion of his right which he did not part with was of great value to him, and was part of the consideration for which he sold the patented article. (We will refer again to this point.)

In the case at bar the plaintiffs had the right to exclude others from selling the Sanatogen package at all, or at any price; they had the right to exclude others from selling it at one dollar, or at less than one dollar, or at more than one dollar. In like manner they had the right to exclude all persons from using it, or from using it unless they had bought it at a certain price. It was their privilege to give up any one of those rights either separately or together. They chose to give up the right to exclude others from selling Sanatogen at one dollar or more and from using it if bought for one dollar or more. They chose not to give up but to retain the right to exclude others from selling the Sanatogen at less than one dollar and from using it if they paid for it less than one dollar. That latter right was as much theirs after they had sold the article to the jobber or to the defendant directly, as it was before they had so sold it. The defendant knew that he had no right to sell the Sanatogen at less than one dollar, but that the plaintiffs had retained to themselves that right. The defendant,

therefore, knew that in selling the Sanatogen at less than one dollar he was violating that portion of the right of the plaintiffs, granted to them by the statute, to make, use and vend the patented Sanatogen, which had been retained by the plaintiffs as their own. He, therefore, is clearly an infringer, having knowingly violated the patent rights of the plaintiffs.

This case may be looked at in another way. Inasmuch as on principle, and in accordance with the law as settled by the courts, the patent gives exclusive control of the *invention* as distinguished from the article embodying it, a license under the patent must go with every article embodying the invention, even if made and sold by the patentee. If he sells an article embodying the invention and says nothing as to the kind and character of the license that goes with it, the law implies a full license, which operates to take the article finally outside of the domain of the patent so that it may thereafter freely be sold or used as if it were not patented at all. If, however, in disposing of the article the patentee expresses in terms the extent and character of the license that goes with the article, that expression is controlling. The article is then freed from the domain of the patent to the extent provided by the express terms of the license and to no greater extent.

The question presented in the case at bar is in effect as if the plaintiffs had brought suit on the patent by an ordinary bill in equity, and the defendant had answered that he had a license to sell the Sanatogen package at one dollar or more a package. When it was proved that he sold it at less than one dollar a package the defence would fail, for the acts of the defendant were not within the license. Hence he is an infringer.

DIFFERENCES BETWEEN THIS CASE AND THE MIMEOGRAPH CASE.

The case at bar presents two points of difference from *Henry v. Dick Co.*, which however involve no distinction in legal principle.

The first is that in the Mimeograph case the license restriction was so drawn as to curtail the freedom of the user of the mimeograph to use with it certain unpatented articles such as ink, stencil paper, etc., when not made by the plaintiff, and to this extent presented a case which had the superficial aspect of an effort of a patentee to control the free use of unpatented articles.

No such consideration is present in this case. The only effect of the Sanatogen license restriction is upon the sale and use of the patented article itself, over which the patentee has complete control. Therefore, the case at bar in this aspect is much more favorable to the patentee than was *Henry v. Dick Co.*

The second difference between the Mimeograph case and the case at bar is that in the Mimeograph case it was pointed out that the patentee had sold the mimeograph at a low price with the expectation of obtaining full consideration by the profit that he would make from selling ink, stencil paper, etc., to the users of his mimeographs.

There is no such plan for obtaining further cash payment by the further use or sale of the Sanatogen. But this difference cannot profit the defendant.

In both cases the patented article was sold with a license restriction by which the defendant was notified that the patentee retained to himself the right to exclude others from making, using or vending the patented article except under certain conditions. So that there is no distinction between the two cases arising from the way in which

the patentee parted with the patented article in the first instance.

In both cases it was a *sale*.

The defendant, however, urges with great emphasis, and his case is practically based upon the theory, that when the plaintiff originally sold its Sanatogen it received full consideration for whatever patent rights it had in the patented article, and did not expect to receive anything further as a result of the license restriction imposed. There are two answers to this proposition; the first is that it would be immaterial if true; and the second is that it is not true.

(1) Even if the patentee expected to get no further consideration than what he obtained on the original sale of the patented article, that fact would not involve a grant to the purchaser or his assigns of any more of the patentee's rights than he himself voluntarily parted with. The expectation of the patentee to obtain further pecuniary returns from the use of the patented article does not change the character of the license or the rights which the patentee reserved to himself; and those rights, as we have explained above, were in the case at bar to exclude everybody, including the defendant, from vending the patented Sanatogen at less than one dollar a package, or using it if bought, at a lower price.

The plaintiffs were by the terms of the license the only persons who had the right to sell Sanatogen to the public at less than one dollar. This right was granted to them by the Patent Laws. They never parted with it, and have the right under the Patent Laws to exclude the defendant from doing that thing.

(2) Moreover, it is not true that the plaintiffs when they sold the Sanatogen to the defendant, or to jobbers from whom the defendant bought some of the goods sold by him, received full consideration for their patent rights regardless of the restriction which excluded others from selling it at a price less than one dollar.

It cannot be denied that the plaintiffs believed that the right to exclude retailers from selling Sanatogen at less than one dollar was a valuable right by reason of which their profits from their patented invention would be increased, because they made the reservation and the retention of that right a part of the consideration for which they originally sold the patented Sanatogen.

Now the defendant contends that a portion of the consideration involved in the original sale must be treated as an absolute nullity. But this Court cannot disregard a part of the consideration moving one party to a transaction and treat it as worthless, where it was regarded by him as a material and important part of the transaction.

As a matter of fact, the right of the plaintiffs to exclude others from vending the patented Sanatogen at a price less than one dollar was an enormously valuable and important consideration from a practical point of view, and one founded on well recognized economic rules that govern the trading in such articles.

A patented article is a new thing. In many cases there is no market for it. The public must be educated to its value so that it will acquire and use it. So to educate the public that it will take the patented article in large quantities often requires as much ingenuity as did the inventive effort. It is well known that the methods by which patented inventions are marketed and introduced into use are infinite in number.

The owners of patents on certain things that may be called "specialties" have in pursuance of this general scheme and purpose of the patent law found that the only way, or at least the most efficient way, in which they can get a market for their new product is by allowing or causing it to be distributed and marketed only upon condition that the ultimate user shall pay a certain price for the article. Such specialties are generally small in size and sold

at a small price. The only way in which any appreciable aggregate profit can be obtained is by developing a large market for them. They go into the hands of individual members of the community who generally have no use for more than one at a time. They must be distributed by interesting a large number of small dealers in their sale. Sanatogen is a patented article of this sort. The Ingersoll Watch, the Waterman Fountain Pen, the Gillette Safety Razor are all articles of this type; and there are many others. In every such case the article is new and of a distinct type and there is in the beginning no market for it. The owner of the patent is obliged to create that market. The public knows nothing of these articles in the beginning and has to be educated as to their value. The patent owner proceeds to educate the public in the recognized ways. He advertises and very likely distributes samples at a great expense. He establishes a price to the consumer that will, he believes, assure to the patentee an adequate profit over and above the cost of manufacture and the cost of selling in the usual way through jobbers and dealers, each of whom must have his regular profit or he will not handle the goods.

In time the public becomes interested in the article, tries it, finds that it is satisfactory and thereupon begins to buy it in substantial quantities. If the patentee, who has created the article and spent a large amount of time, energy and money in perfecting it and introducing it to the public, has no control of the price to the users, he finds that the adequate selling price at which a market for his goods had been established, and at which he might seem to be on the point of getting the return to which he is entitled for his efforts and expenditures, is cut from under him and that his market is destroyed, so that his enterprise is in danger of failing entirely.

It is altogether in connection with the marketing of these

patented specialties that price restriction has been developed as a normal and essential part of the scheme for marketing such articles. The scheme is not one of general application.

What are the dangers in the situation, after the preliminary plan of introducing the article has been successfully carried out, which require such price restrictions in the case of this particular class of patented articles?

The public has now become acquainted with the patented goods. The dealers throughout the country are called upon by their customers to supply them, but the article is not and probably never will be "stable" in the sense in which the vast majority of commodities are stable, that is, made in such tremendous quantities and the subject of such universal demand that the action of no dealer or combination of dealers, taken for purposes of selfish advantage, can interfere with the making of a reasonable profit, generally, by the ultimate dealers who supply the goods directly to the public. Even in stable articles there is sometimes cut throat competition, but not frequently. With any specialty, the most destructive competition is easily possible.

A single department store, mail order house or even a single retailer who has in stock a comparatively small number of the special patented article in question, can advertise it extensively at a cut price and thereby attract to his store a large number of persons who love a bargain. If a few minutes after the goods are offered for sale they are gone, the would-be purchasers who call later are informed that the stock is exhausted, that there will be more for sale in a few days, but that here is another article that is just as good and very likely for sale at a lower price; and, at any rate, the store is full of all sorts of attractive bargains from which the customer may readily be induced to choose.

Meanwhile others in the community who want the specialty in question refuse to buy it of the regular dealers

because they have seen it advertised at a lower price than that at which the regular dealers will sell it. The regular dealers make but a small profit on the sale of such specialties and the aggregate sales of any one of them are not large. They fear such a situation as the one above depicted to such an extent that if a specialty is advertised at a cut price in their neighborhood, they simply refuse longer to handle the goods on the established basis or perhaps at any price, for it is not worth while to carry a stock of an article not readily salable or upon which they can make no profit. The result is that great as may be the demand for the specialty, if others are cutting the fixed price, the dealers first demand a lower price from the patentee, which, as the price cutting will still continue, must constantly be reduced to the point of no profit to the patentee; and, second, they are sure, earlier or later, to refuse to carry them in stock or to push the sale of them; the patent owner gets no return for his great expenditure and unless in the face of this discouragement and the certainty that the same cut throat methods will be repeated, he continues his advertising and other efforts to introduce the article, the public soon forgets it and the business is killed. That there is no exaggeration in this picture is shown conclusively by the testimony before the Committee on Patents in the last Congress in the hearings on the Oldfield bill.

It is absolutely essential to the patentee that he should keep a very large number of dealers interested in his patented specialty. If he cannot do so, he has under modern conditions no way of getting his goods before the public. Few dealers sell many of the patented articles and their profit on each sale is small. If they cannot be protected in a reasonable profit, they will refuse to carry the goods.

In the absence of price restriction, they are at the mercy of any rival concern which endeavors to make a patented specialty a "leader" to bring people into his store or to

give the impression by advertising the goods at a lower price than his prices generally are low, which impression in most cases is contrary to the fact.

It is clear therefore that to the patentee selling specialties of this character, of which "Sanatogen" is one, the control of the selling price to the consumer is all important as a matter of dollars and cents and of the stability of his business. If by the exercise of his statutory right to control the terms at which the goods shall be sold as well as used he cannot fix the price to the user, his own prices, which in accordance with public policy, are not to be fixed by competition in the same sense as are ordinary articles of merchandise (for the patentee has the absolute right to fix his own price and maintain it), will be forced down against his will. The extent of his sales, upon which his gross returns and gross profits depend, will be greatly reduced.

It is clear, therefore, that the manufacturer of a patented article, who adopts the expedient of a price restriction, expects to receive and in fact receives by reason of it a consideration of the greatest pecuniary value. He does not get his full consideration for the sale of a patented article and the right to use his invention as embodied in that article, in the money price received for it in the first instance. There is another consideration, — *the existence of the license relations* which will insure to him his established cash return for each article of his sales generally, and opportunity for large sales with a profit on many articles sold. That important consideration, involving the stability and maintenance of his business, is part of the transaction and of the inducement for each sale. Is he powerless to contract for and exact that consideration and to fix his money price in view of it?

It cannot for one moment be thought possible that the price restriction plan would have been adopted in so many cases of these patented specialties, where trouble is involved

and the patentee gets not one cent more for an individual article, if it were not a most important element in a sound scheme, satisfactory to the public, for developing a business that must be established and the patent profits of which must be realized within the short term of the patent.

Specialties that are not patentable must take care of themselves, and we are not now concerned with the law as to price restriction where rights under a patent are not in question. But as to patented specialties of the kind that are sold through dealers (as to which alone are price restrictions applied as part of the plan of which they are marketed), the public policy which encourages invention seems quite consistent with what is the well established rule of law that the patentee should have the right, as part of his control of the exclusive right to use, to say that the user shall not use unless he pays a certain fixed price for the article, and, as part of his control of the exclusive right to use and sell, to say that the seller shall not sell unless he adheres to that fixed price. If the patentee absolutely refuses to grant the full right to sell or to use, but grants only the right to sell at a certain price and the right to use if a certain price is paid for the article, reserving to himself the right to sell at any other price and the right to use if a different price is paid, he is clearly acting within the rules of law laid down in the case of *Henry v. Dick Co.* and the other cases which have proceeded upon and established the principle that such conditions are valid; and it is respectfully submitted that there is no public policy to the contrary.

It is no answer to urge that resale price restrictions may raise prices to the ultimate consumer over and above what they would be if such unreasonable and unfair (but not illegal) competition existed as that above briefly outlined.

The patent grants to the patentee a monopoly and he has

a perfect right to ask as much for the patented article as he pleases. He might put a prohibitive price upon it, but sound business sense requires that he should only charge as much as the public will be willing to pay for it, or otherwise the public would not purchase. He fixes his price in view of the value of the new article to the public. He would kill his chance of profit if he put it too high.

In *Bement v. National Harrow Company*, 186 U. S. 70, the Supreme Court held to be valid contracts requiring licensees to maintain the prices of the patented articles. The court said (p. 91) : —

“The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal.”

And again (p. 93) the court said : —

“The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.”

AUTHORITIES.

The authorities bearing on the question involved in this case do not, with one possible exception, require elaborate discussion by us. We shall content ourselves with a brief reference to certain cases in this Court.

The cases of the sale of a patented article without reservation or condition are entirely irrelevant :

Adams v. Burke, 17 Wall. 453.

Keeler v. Standard Folding Bed Co., 157 U. S. 659.

Likewise irrelevant are the cases dealing with the right to use a patented article after the extension of the patent beyond its original term :

Bloomer v. McQuewan, 14 How. 539.

Chaffee v. Boston Belting Company, 22 How. 217.

Cases concerning resale price restrictions on an unpatented article are also irrelevant. They are simply questions of contract and if they savor of unlawful monopoly may be within the Sherman Act, while the essence of patent control is a lawful monopoly.

Miles v. Park, 220 U. S. 373.

On the other hand, it is settled that price restrictions in licenses for the sale of patented articles are lawful.

Bement v. National Harrow Company, 186 U. S. 70.

It has been held by this Court that a patentee reserves to himself all rights to his patent monopoly not granted by the license and that one dealing with the article in a manner outside of the right granted is an infringer.

Rubber Co. v. Goodyear, 9 Wall. 788.

Mitchell v. Hawley, 16 Wall. 544.

Henry v. Dick Co., 224 U. S. 1.

The case of *Bobbs-Merrill Co. v Straus*, 210 U. S. 339, perhaps requires special consideration, among other reasons because the doctrine of that case is at the basis of the decision of the United States District Court for the Southern District of New York in *Waltham Watch Co. v. Keene*, 202 Fed. Rep. p. 225, which will probably be relied on by the defendant in this case.

In the *Bobbs-Merrill* case, the owner of a book had inserted the following notice on the page in the book following the title page, immediately below the copyright notice:—

“The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.”

The defendant had sold the book in violation of that condition. The owner of the copyright had sold the book in question and the same had been lawfully purchased by those from whom the defendant purchased it; but it was contended that the “power to control further sales is given by statute to the owner of such a copyright in conferring the sole right to ‘vend’ a copyrighted book”. The conclusion of the court is expressed as follows:—

“In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work, a right which is the special creation of the statute. True, the statute also secures, to make this right of

multiplication effectual, the sole right to vend copies of the book, the production of the author's thought and conception. The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. What the complainant contends for embraces not only the right to sell the copies but to qualify the title of a future purchaser by the reservation of the right to have the remedies of the statute against an infringer because of the printed notice of its purpose so to do unless the purchaser sells at a price fixed in the notice. To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, *would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.*" (Italics ours.)

In coming to this conclusion, the court emphasizes the fact (p. 347) that "to secure the author the right to multiply copies of his work may be said to have been the main purpose of the copyright statutes, *Stephens v. Cady*, 14 How. 528, 530".

The court in the *Bobbs-Merrill* case is careful to guard against any expression of opinion that the rule of that case is applicable to the entirely different situation that might arise under the patent law. It says (p. 345): —

"We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them. This was recognized by Judge Lurton, who wrote a leading case

on the subject in the Federal courts (*The Button Fastener Case*, 77 Fed. Rep. 288), for he said in the subsequent case of *Park & Sons v. Hartman*, 153 Fed. Rep. 24:

'There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relates to the one subject are not altogether controlling as to the other.'

Mr. Justice Lurton was clearly justified in his statement that there are wide differences between the right of multiplying and vending copies of a copyright production and the rights secured to an inventor under the patent statutes.

COPYRIGHTS AND PATENT RIGHTS COMPARED.

As preliminary to discussing the bearing of the law of the *Bobbs-Merrill* case on the question here before the court, it may be well to consider some of the distinctions that exist between copyrights and patents, in the character of the subjects-matter and in the nature of the grant required by an author as distinguished from that required by an inventor in order that both may be effectively rewarded and encouraged.

As is stated in the *Bobbs-Merrill* case (p. 346), "At common law an author had a property in his manuscript and might have redress against any one who undertook to realize a profit from its publication without authority of the author. *Wheaton v. Peters*, 8 Pet. 591, 659."

And, as is stated in the quotation from Drone on Copyright next following the above quotation, the right at common law to works that have not been published is perpetual.

There it no right at common law to an invention or to exclude others from enjoying it. Trade secrets, whether

or not inventions, were to some extent protected. They were not protected as inventions, but upon an entirely different legal theory.

Coming to the statutes, we find under Section 4952 of the Revised Statutes of the United States that it is only the inventor, designer or proprietor of any "book, map, chart, dramatic or musical composition, engraving, cut, print or photograph or negative thereof or of a painting, drawing, chromo, statue, statuary and of models or designs intended to be perfected as *works of the fine arts*", who may secure the benefit of the copyright statute.

It is to be observed that every one of the things mentioned embodies in one form or another the expression of a thought which could be communicated to others through the eye or ear. It is upon the dissemination of thought effectively and attractively expressed in literary, musical, artistic or instructive form, so that it will appeal to the reason or the imagination, that the progress of literature, art, including music, and that form of education which is based upon books or printed material, depends. The copyright act holds out a reward to those who have the genius or capacity for such work by giving them the control of the multiplication and sale of the specific literary, educative or artistic form in which the thought is expressed.

When so expressed in an article capable of being copyrighted, we have only the printed page, the map, the picture, the statue or the printed musical composition, which in and of itself is of no utility except to convey to the eye or the ear the original thought in the form of expression devised by the author. The copyright law gives to the author an opportunity for getting the same return for his work that he could get if he were to read his book, show his picture or statue or perform his musical composition for pay in the presence of others without reproduction or multiplication. It only enables the author vastly to enlarge his

paying audience. None of the subjects of the copyright directly produces anything. A copyrighted article is not used for productive purposes. It may teach, instruct and educate. It may please. It may develop power of thought and of imagination and of literary and artistic expression. It may lead to mental, moral or spiritual development, excite to inventive activity or stimulate to achievement; but none of these matters that are subject to copyright is directly used or useful for production.

The whole spirit of the copyright law is to reward the author by enabling him to control the multiplication of the form of thought expression which is new with him, that his material profit may be increased in proportion as his audience is enlarged.

Moreover, the copyright statute in protecting the author deals and has occasion to deal only with the specific articles in which are reproduced or multiplied his form of thought expression. When the same is published or incorporated, as for instance in a book or picture, the author's interest is in that specific thing only and he gets his profit from the distribution of that specific thing.

As a practical matter, throughout the whole history of the copyright law, the profit that the author receives has come almost altogether from sale at a price. Few, if any, of the innumerable ways that have necessarily been developed in order to secure profit from a patentable invention have ever been applied to copyrighted articles. To be sure, an admission fee may be charged to view a picture or statue, or to enjoy a dramatic or musical composition, and the right to present the latter is sometimes conferred at a price; but such methods of emolument would be practicable if there were no statutory copyright. So far as the copyright exists, the gain from it to the author, as business methods have developed, is practically altogether by sale.

Therefore, the remedy given to the owner of a copyright to protect him in his exclusive control is definitely aimed at multiplication and sale, for upon multiplication and sale only can he, as a practical matter, rely as a source of profit. The statute therefore says that those who take a copyright shall "have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending the same". (U.S. Comp. St. 1901, p. 3406.) There is no control of use, for the conditions are such that control of use is of negligible importance.

The situation is very different with an invention which has been patented under the terms of the patent law.

As already stated, there is no common law right of protection to an invention.

While the invention is a thought, it is not one which as a rule is capable of that definite form of expression which is inherent in copyrighted articles. When presented to the public, it is not put out in a form which appeals only to the eye and ear and which results only in conveying pleasure or information or in stimulating the mind. An invention is the idea of a new and useful product, organized machine, or process, a combination or organization of physical elements which is new and which is useful because of its material characteristics, its mode of operation or the product or results of its operation. When embodied in physical form or practised in conjunction with the materials or forces supplied by nature, it is useful as accomplishing definite mechanical or physical operations with productive results. It is the *use* of the machines or processes in which inventions are embodied that is of prime importance. In this use there is no element of the representation of a thought expression to the brain through the eye and the ear which is the limit of the field of the copyrighted article.

The patent law, therefore, in fixing the nature of the control with which the patentee is vested does not under-

take to deal with the multiplication or reproduction of the invention. It does not undertake to deal with the multiplication or reproduction of articles or structures in which the invention may be embodied. It says nothing as to the sale or use of articles, machines or processes. It simply gives to the patentee the exclusive right, first, to make; second, to sell, and third, to use the *invention* (however the same may be embodied or applied) for a term of seventeen years as against the copyright period of twenty-eight years, with a right of extension for another twenty-eight years.

Of these rights, the one that is of fundamental importance to the patentee and to the public, is the right to *use*; for it is only when the invention is used to produce a product or secure a result that it plays any part in the service of man and is of value. It is the *user* who gets the benefit of the invention by increased convenience, improved results or enlarged financial returns, and it is from the user that the inventor must ultimately get the profit to which he is entitled. It is the *user* from whom the patentee may expect a profit and the terms of whose use he needs to control.

As has been often stated by the courts, the right to make and to use and to sell the structure in which an invention is embodied or the right to use a patented process is not at all vested in the patentee by the terms of the patent statute. He has that right without any statute; but vesting in him the exclusive right, gives him the power of preventing the manufacture, preventing the sale and preventing the use of the invention, altogether if he chooses (*Paper Bag Case*, 210 U. S. 405), and if he elects to allow the patented invention to go into use at all, he can control the extent and character of the use and the price at which the invention may be used by parting with a definite portion only of his exclusive right, reserving to himself the remainder.

As already stated, the nature of the copyrighted prop-

erty is such that practically without exception the only return that comes to the author under his copyright is by sale of the copyrighted material. Substantially all business in copyrighted articles is merely the sale of the multiplied copies. The only notable exception is the case of dramatic and musical compositions, the production of which is sometimes authorized on a royalty, as might be done if there were no statutory copyright and as is done in many cases where the author relies upon his copyright at common law.

As to patented inventions the situation is different. Ignoring process patents which are not material to the present case, the embodiment of an invention which alone is useful is a new thing. Sometimes it is radically new. In other instances, where it is an improvement on what was old, it has different properties and characteristics from what was known before. If radically new or substantially different from other things in the same class, there is no market for it whatever, and although it may prove to be of the utmost value when known and understood, it not infrequently requires as great ingenuity to induce the use of the patented product as it did to make the invention.

The patentee has only a short time in which to get from the public a return that will reward him as the statute intends for his intellectual and imaginative effort, and compensate him for the time and expense of developing the invention; and not infrequently it takes a long time and a very large expense to bring a new idea into commercial form. He has to overcome the inertia of the public which is wedded to its old ideas and old methods. He has to educate the public as to the value of the new thing in the face of the competition of those who are offering to the community similar devices and whose business may be jeopardized if the new invention succeeds.

THE COPYRIGHT LAW AND THE PATENT LAW.

Recognizing these difficulties of the patentee, the patent law, unlike the copyright law, has given the patentee a free hand. He may manufacture the patented article himself. He may sell the patent, or a fractional interest in the patent, for the whole country or for any given territory large or small. He may himself manufacture, or grant any number of manufacturing licenses, limiting each manufacturer, if he chooses, to a particular style or class of goods or to sell in a particular territory. He may grant to some licenses to *manufacture* without the right to sell, except to certain people or in certain localities. He may grant the right to *sell*, whether he manufactures himself or has licensed others to manufacture, which selling rights may be general or limited as to territory or otherwise. He may grant licenses to *use* in particular factories, that is, shop rights, or in a particular territory or for a particular kind of work. As was settled in the case of *Henry v. Dick Co.*, following a long line of cases in the lower courts, he may attach to his license "any conditions not definitely unlawful"; and (*Bement case*) the same will be enforced by the courts not merely as a lawful business contract but through a clear recognition of the scope and character of the patent law; for wherever he has by a license contract parted with a right, he retains all that portion of his exclusive right to make, use and sell the invention that is not nominated in the bond as expressly granted.

If he grants to a user the right to use a mimeograph, but only with ink and stencil paper purchased from him, the user is an infringer if he uses that mimeograph with other ink and stencil paper, because *the right to such other use has been retained by the patentee* and may be enforced under his patent. (*Henry v. Dick.*) If he grants a right to use and manufacture and sell under his patent a certain type of

machine, when sold at a certain price, *he reserves to himself the right to make all other types of machines* and to sell at a different price and the licensee is liable if he transcends the terms of his license. (*Bement case.*) If he grants a license to manufacture machines with the restriction that they can be sold, with the right to use only to the expiration of the term of the patent, and then secures an extension of his patent, he may sue as an infringer the owner of those machines who continues their use after the expiration of the original patent. (*Mitchell v. Hawley*, 16 Wall. 544.)

By the terms of the statute a patentee has the exclusive right to exclude anyone from the *use* of his invention. There is no such provision in the copyright law. Having this right the patentee must surely have the power, when he authorizes one to use his invention, to impose such terms upon such user as the patentee regards as advantageous to himself. The all-important condition which he clearly must have the right to enforce, if his right to control the use of his invention is not a meaningless, fiction is as to the price at which the user may get the benefit of the new thing.

If the patentee deals directly with the user there can be no question that he may charge him such price as he chooses, or refuse to sell to him. Under modern conditions, however, the patentee can get at the user only through such agencies as jobbers or retail dealers. It is obvious that, in approaching the user through such agencies, the price and terms upon which he can use the invention, that is to say, the conditions of his license to use, can be communicated to him and exacted from him only by a proper control of the sale of the articles embodying the invention after they have passed out of the hands of the patentee. The patentee can secure this control only by

such an arrangement as that adopted by the patentee in the present case, whereby through the exercise of his right to impose a price restriction, that is, by granting a license to sell on certain terms and not otherwise, he can effectively prevent the use of the patented article unless purchased on those terms.

By the copyright law, no control of the use of a copyrighted article is vested in the owner of the copyright. After the copyrighted article has been produced and sold, its use is unrestricted. The conclusion of the court, therefore, in the *Bobbs-Merrill* case, that the right to vend granted by the copyright act did not authorize the owner of the copyright, when he sold the book, to impose a restriction upon future sales by vendees of the book, was natural and reasonable. Such a conclusion would not have been natural or reasonable if the essence of the right of the owner of the copyright was, as in the case of an invention, to control the use.

In the *Bobbs-Merrill* case the court says that the main purpose of the copyright act was to secure the right of multiplying copies and that the sole right to vend was given, as an incident, to make the right of multiplication effective. Such being the situation, it may well be that the purpose and intent of Congress is satisfied by limiting the control of the vending under the copyright act to a control of original sales.

Under the patent act, however, no such finding or argument is possible. The theory of that act is that the patentee shall have the right to control his invention throughout the stages of its manufacture, of its distribution and, what is most important of all, of its use. Under modern conditions, control of the use of a patented specialty like Sana-togen, that is to say of the terms and consideration on which it may be used, is impossible except through control of the

terms of sale up to the one which ultimately places the patented article into the hands of the user.

As a matter of fact, controlling the terms of the sale of the comparatively small class of patented articles in connection with which the so-called price restriction plan of selling has been adopted, is a mere incident to controlling the price which the ultimate user must pay that he may get from the patentee a license to use the patented article. In no true sense is a restriction on a transfer of title to materials composing the patented article involved in the price restriction. The restriction is on the right of any of the intermediate owners of the patented article to transfer, not only the materials of which it is composed, *but the right to use the invention* embodied in those materials except on the terms prescribed. The vendor could have said to his original vendee :—

“I sell you this patented article with the right to use it yourself personally but with no right to transfer the right of use without my consent. If you sell the article the purchaser must come to me and obtain my consent before he can use it.”

Such a restriction would have been entirely valid, and if, when the purchaser came to the patentee and asked for his consent, he had given it on condition that the new purchaser should pay to the original vendee a certain price, the transaction would clearly be entirely legal. This is in substance what the present restriction amounts to.

The case of *Henry v. Dick Co.*, 224 U.S. 1, expresses so clearly and fully the principles upon which the plaintiffs rely in this case that a discussion of it is entirely superfluous. It is sufficient to say that the conclusion in that case was in full accord with every principle of patent law

laid down in the decisions of this Court, and confirmed the unanimous opinions of many Federal judges in many cases in the Circuit Courts and Circuit Courts of Appeal. For so many years before and after the well reasoned opinion of Judge Lurton in the *Button Fastener* case, 77 Fed. 288, which stated so clearly the underlying principles upon which the decision in *Henry v. Dick Co.* was based, lawyers and their clients who work under patents had been acting upon what seemed to be the established law to the effect that license restrictions and resale price restrictions were valid, and that persons acting outside of the rights granted were violating the rights retained by the patentee, that any other decision would have come as a shock to the community, and would have destroyed an immense volume of business built up on the basis of restricted sales and licenses.

The practical result of the decision in *Henry v. Dick Co.* has been to assure patentees throughout the United States that their patent rights were safe and that their business could be extended and developed along the lines, determined by the logic of business conditions, to which they had been accustomed from the beginning of the patent system, and which had been declared valid by the lower courts.

The dissenting opinion in *Henry v. Dick Co.* apparently ignores the proposition that the validity of a restriction imposed upon the use of a patented article primarily depends, not upon the contract between the parties as a contract, but upon the fact that the patentee has the exclusive right to the manufacture, sale and use of his invention and that a licensee who deals with the patented article in violation of his license is an infringer, not because he has promised not to do what he has done *but because he had no right to do it.*

It is respectfully submitted that the decision in *Henry v. Dick Co.* was sound and that a finding for the plaintiff in

the case here before the court logically follows from the reasoning of the prevailing opinion of the court in that case.

NO UNLAWFUL RESTRAINT OF TRADE IN THE PRESENT CASE.

It is to be noted that there is no element of unlawful restraint of trade in the case at bar. There would have been no trade in Sanatogen if the patentee had not made his invention. There would have been no trade during the life of the patent if he had elected that nothing should be done by way of manufacture under the patent. Instead of restraining trade, the patentee has expanded it beyond what the law required, by authorizing the manufacture, sale and use of his patented article, with a single condition essential to the success of the business. There is no element of unlawful combination in this case. The patentee individually and without co-operation with others has dictated the ultimate price to the user, and incidentally, to make effective the terms upon which he would license the user, the price at which alone a sale might be made, as we respectfully submit, he has a right to do. Nothing in *Sanitary Co. v. U. S.*, 226 U. S. 20, is material to this case.

CONCLUSION.

It is respectfully submitted that in the case at bar the plaintiffs in selling their Sanatogen with the license notice appended thereto, granted the right to sell only when the sale was at one dollar or more per package and the right to use only when at least one dollar was paid for the package. They reserved to themselves all other rights. The right to control, by designated restrictions, the terms of the sale and use of the invention, although the article embodying it had been sold to a vendee, was secured to the plaintiffs by the terms of the patent law and in accordance with the spirit of that law. The defendant, who had a specific license under

the patent, in violation of that license sold the article at a price which his license did not authorize him to sell. Thereby the defendant enabled a user to secure the article at a price which, by the terms of the license given by the patentee, was not that in consideration for which the patentee had authorized the use of his invention. Therefore the purchaser had no right to use the patented article and if he did use it was an infringer. The defendant was therefore an indirect as well as a direct infringer of the plaintiffs' patent. He might also have been charged as being a contributory infringer for knowingly and willingly co-operating with the user, to whom he sold the article, in the latter's use of it without compliance with the only terms upon which a license to use was given.

The question propounded by the Circuit Court of Appeals for the District of Columbia should be answered in the affirmative.

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